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CIS

OVERSIGHT OF IRS TAXPAYER ASSISTANCE PROGRAMS

HEARING

BEFORE THE

SUBCOMMITTEE ON
OVERSIGHT OF GOVERNMENT MANAGEMENT

OF THE

COMMITTEE ON
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

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OVERSIGHT OF IRS TAXPAYER ASSISTANCE PROGRAMS

WEDNESDAY, MARCH 24, 1982

U.S. Senate,
Subcommittee on Oversight
of Government Management,
Committee on Governmental Affairs,
Washington, D.C.

The subcommittee met at 9:30 a.m., in room 6226, Dirksen Senate Office Building, Senator William S. Cohen (chairman of the subcommittee) presiding.

Present: Senators Cohen and Levin.

Also present: Susan M. Collins, staff director; Jeffrey A. Minsky, staff investigator; Frances C. de Vergie, chief clerk; Anne Demers, assistant chief clerk; Barbara D. Savage, minority counsel; Marvin Putnam, intern.

OPENING STATEMENT OF SENATOR COHEN

Senator Cohen. The subcommittee will come to order.

The Subcommittee on Oversight of Government Management has convened this hearing to examine the impact of reductions in the Internal Revenue Service's taxpayer assistance programs.

Our tax laws are so complicated and overlaid with exemptions and exceptions that most taxpayers need assistance to complete their returns. Those who can afford it seek help from accountants, tax lawyers, and other experts. But those who cannot afford private assistance turn to the IRS, the traditional source of free tax advice. In particular, low-income and elderly taxpayers are most likely to rely on the IRS for assistance in completing their returns.

In the past, the IRS has offered a varied assistance program, including a toll-free telephone network, walk-in facilities, volunteer programs, and information and education classes. These programs allowed the Service to help over 44 million taxpayers comply with their Federal tax obligations in fiscal 1981.

In fiscal 1982, however, the taxpayer assistance was cut by 10 percent, forcing the IRS to close 214 walk-in offices around the country and to eliminate direct preparation and review of tax returns for all taxpayers, except illiterates, the handicapped, and, of course, Members of Congress, in those offices that remained open.

I'm not sure of the classification, ladies and gentlemen, but that's the way it remains.

The cuts in taxpayer service proposed for fiscal 1983 are more drastic—35 percent—and will cause the IRS to totally refocus its assistance. No longer will a taxpayer be able to call the toll-free number or visit the local IRS office to ask Service personnel a tax law question, such as "Am I eligible for the earned income credit?" Rather, the taxpayer will most likely be given a publication, which he may not be able to understand, and directed either to seek commercial assistance, which he may not be able to afford, or to contact a volunteer group, which may not have the expertise to provide that assistance.

The IRS intends to concentrate its limited resources on answering questions only after the return has been filed. And yet, the IRS itself estimates that more than 80 percent of the calls it will receive during this filing period are questions about tax laws and return preparation—precisely those questions that the Agency will no longer handle next year.

As a result of the planned reduction and refocusing of taxpayer assistance, the IRS has projected a sharp decrease in taxpayers assisted, as illustrated by our chart.[1]

Although the number of returns filed will continue to increase, the IRS will assist 57 percent fewer taxpayers in fiscal 1983 than it did in fiscal 1981.

Now if the IRS reduces its taxpayer services, the quality of the remaining assistance becomes even more critical. Our hearing will examine whether or not the Internal Revenue Service has been able to provide high quality and timely service through its toll-free telephone program to offset the reduction in walk-in service during this filing season, as well as the feasibility of its plan to use the volunteer programs to offset the reduction in telephone assistance next year.

The American tax system is based on the principle of voluntary compliance. It is the most successful tax system in the world, because most taxpayers voluntarily and honestly pay what they owe. But compliance is dependent also upon knowledge.

A taxpayer cannot meet his obligation if he doesn't understand it. The implications for compliance of sharply reduced taxpayer assistance should give us all, I think, some pause. How are taxpayers who need assistance in completing their returns, but cannot afford commercial preparation, going to comply with our complex tax laws if the IRS no longer helps them? The IRS itself has predicted "a significant decline in compliance" if taxpayer assistance is reduced.

We should, I believe, also consider the impact of these reductions on the public's perception of the Internal Revenue Service. The Internal Revenue Service is burdened with a negative public image. Perhaps that's an unavoidable consequence of being the Nation's tax collector. Its taxpayer assistance programs, however, are a very positive aspect of the Agency's duties. To reduce taxpayer assistance at the same time that the number of auditors is going to be increased will only provide an adversarial relationship with the tax-paying public. This is not to say that more effective collection of taxes to prevent losses to the underground economy is not needed, but rather, that the Agency should also foster a cooperative relationship with the public.

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[1] See p. 78.

To assist us in our oversight today, we are fortunate to have two former Commissioners of the Internal Revenue Service, a Harvard law professor who has worked extensively with low-income taxpayers, the General Accounting Office, and the current IRS Commissioner, Roscoe Egger.

I look forward to hearing the testimony of all of the witnesses today, but especially our lead-off witness, the chairman of the committee, Senator Roth. He's the distinguished chairman of the Governmental Affairs Committee. He has introduced a resolution calling for full funding for taxpayer assistance programs. Senator Roth, I am delighted that you would take the time from your own schedule to come before the subcommittee this morning to present your testimony.

TESTIMONY OF HON. WILLIAM V. ROTH, JR., U.S. SENATOR FROM THE STATE OF DELAWARE

Senator ROTH. Mr. Chairman, I am particularly grateful that you are holding these hearings today on what I consider a very critically important problem. I would say that, in many ways, you have already said the principal points that I want to make in my testimony. I have a full statement, Mr. Chairman, and I will read parts of it, but I would ask that it be included in its entirety as if read.

Mr. Chairman, I'm a member of the Finance Committee and for the many years that I've served on that committee, its been my concern that we give adequate service to our taxpayers back home. I greatly regret that the direction seems to be to give less service rather than more. My reason for regret is that despite the fact that the Finance Committee, on almost a bi-annual basis, proceeds to reform the tax legislation to make it more simple. It seems to me that every time we just end up making it more complex and difficult to comprehend.

For that reason, I think it's critically important that we provide the kind of assistance that we have given in the past, particularly for the reasons that you're spelling out. There is an underground economy. Part of that may be due to ignorance, not to intentional, nonreporting of income. And for us now to cut back on this, I think, as you pointed out very eloquently in your statement, is a step in the wrong direction.

I might also say, Mr. Chairman, that we are in a period where we're making serious efforts to restrain the growth of Government, to reduce its size. But that I think it's particularly important in doing so that we continue to provide services to the people back home. One of the things that bothers me as I watch some of these cuts and changes is that they're made at the level where they have the most direct contact with the people, and that's back in the States. This is a factor, I congratulate you for holding this hearing and I think it's a factor that we ought to be watching very carefully.

Mr. Chairman, on February 2, Senators Heflin, Levin, who just joined us, Riegle, Sarbanes, Specter, Weicker, and Williams joined me in sponsoring the "All Taxpayers Assistance Resolution." The purpose of this resolution is to insure that American taxpayers continue to receive free tax advice and service from the IRS.

As we've already mentioned, the law is extremely complex. This is the precise reason that the IRS has been maintaining in the past a free program known as the taxpayers assistance program. To drastically reduce it now, I think, is a step in the wrong direction.

At a time when our tax code is becoming increasingly complex, we should provide greater, not fewer, services to our Nation's taxpayers. How can the Government expect the average working man or woman to comply with a system and pay his or her taxes when it takes an expert in the field of taxation to first decipher what is expected?

The proposed reductions in IRS-furnished taxpayer assistance I think would lead to a reduction in taxpayer compliance.

Indeed, IRS studies show that 98 percent of all taxpayers receiving returns preparation assistance have an adjusted gross income of $15,000 or less. These individuals can least afford, Mr. Chairman, to turn to a paid tax preparer for assistance.

The purpose of the taxpayer service program is to enhance voluntary compliance by helping taxpayers understand the tax laws and assisting those with problems.

Sharply reducing the program would undermine voluntary compliance by introducing the concept that people must pay advisers to help them comply with the tax laws.

On December 14, 1981, the Senate Finance Committee unanimously approved my sense of the Senate resolution to preserve the taxpayer's assistance program. The "All Taxpayers Assistance Resolution," which I have sponsored, would maintain this program at a level that would permit the IRS to fully respond and provide assistance to all taxpayers requesting advice.

Mr. Chairman, I commend this resolution to you for serious consideration and thank you for the opportunity to appear here.

Senator COHEN. Thank you very much, Senator Roth.

Senator Levin?

Senator LEVIN. I want to thank Senator Roth for his leadership and assistance in this effort. It's invaluable.

Senator ROTH. Thank you, Senator Levin. Thank you, Mr. Chairman.

[Senator Roth's prepared statement follows:]

PREPARED STATEMENT OF SENATOR WILLIAM V. ROTH, JR.

Mr. Chairman, It is a pleasure to be here today to discuss with you the future of taxpayer services which are currently provided by the Internal Revenue Service.

On February 2, Senators Heflin, Levin, Riegle, Sarbanes, Specter, Weicker and Williams joined me in sponsoring the All Taxpayers Assistance Resolution".

The purpose of this resolution is to insure that American taxpayers continue to receive free tax advice and service from the IRS.

Mr. Chairman, I am sure you will agree that our current tax law is extremely complex and difficult for the average American taxpayer to understand.

Of course, this is the precise reason the IRS presently maintains a free program known as the "taxpayer's assistance program". This program aids taxpayers in preparing their annual Federal income tax returns and also serves as the basic source of tax advise for most of working America.

However, this much needed program is in the process of being drastically reduced.

Indeed, unless Congress takes steps to preserve the program, taxpayer services will be cut by the equivalent of 500 staff years in fiscal 1982 and 2,200 staff years in fiscal 1983, below the level of October, 1981.

To make matters worse, this cut will occur at a time when the total number of taxpayers requesting tax assistance is expected to increase from 46 million to 54 million in fiscal 1982 and to 60 million in fiscal 1983.

As a result, the number of taxpayers assisted will drop from 44 million in fiscal 1981 to 19 million in fiscal 1983. This means that only 3 out of every 10 taxpayers seeking assistance will be helped. In 1980, fully 100 percent of all taxpayers requesting assistance were aided.

In order to acheive this drastic reduction, the IRS would be forced to eliminate walk-in assistance and would, instead, have to rely almost exclusively on telephone contact to respond to taxpayer requests. This would mean an end to return preparation assistance.

At a time when our Tax Code is becoming increasingly complex. we should provide greater, not fewer, services to our Nation's taxpayers. How can the Government expect the average working man or woman to comply with the system and pay his or her taxes when it takes an expert in the field of taxation to first decipher what is expected.

The proposed reductions in IRS furnished taxpayer assistance would ultimately lead to a reduction in taxpayer compliance.

Indeed, IRS studies show that 98 percent of all taxpayers receiving returns preparation assistance have an adjusted gross income of $15,000 or less. These individuals can least afford to turn to a paid tax-preparer for assistance.

The purpose of the taxpayer service program is to enhance voluntary compliance by helping taxpayers understand the tax laws and assisting those with problems.

Sharply reducing the program would undermine voluntary compliance by introducing the concept that people must pay advisors to help them comply with the tax laws.

On December 14, 1981, the Senate Finance Committee unanimously approved a sense of the Senate resolution to preserve the taxpayer's assistance program.

The "All Taxpayers Assistance Resolution" which I have sponsored would maintain this program at a level that would permit the IRS to fully respond and provide assistance to all taxpayers requesting advice in fiscal year 1982.

I commend this resolution for the committee's serious consideration.

Thank you.

Senator **Cohen**. Thank you. Our next witnesses are Jerome Kurtz and Donald Alexander, both of whom have served as Commissioners of the Internal Revenue Service. Mr. Alexander was Commissioner from 1973 to 1977 and Mr. Kurtz served as Commissioner from 1977 until 1980.

Gentlemen, I appreciate very much your taking the time to come before the committee and we look forward to hearing your statements.

If you would just yield for a second, I believe, Senator, you have an opening statement?

OPENING STATEMENT OF SENATOR LEVIN

Senator **Levin**. I do have an opening statement which is relatively brief. Let me squeeze it in right here, if I can do that, Mr. Chairman.

First, I want to commend our chairman for convening this hearing on the recent shift of the IRS resources away from the taxpayer service program. The initiative shown by the chairman here is typical of Senator Cohen. We've seen so much of it, and it's most needed in this area.

The array of services provided to taxpayers under this program meet a real need for these taxpayers, who have to turn to the IRS for answers and help in filing their returns. For many taxpayers, who, in all good faith, want to comply with IRS requirements, the provision of these services can make the difference between wanting to comply and being able to comply.

This subcommittee has worked to improve the way the IRS goes about collecting taxes from delinquent taxpayers, to make it fairer, to eliminate abuses. It follows logically that we would be concerned about how the IRS provides help to those taxpayers who want and intend to fully comply, but who may not have the necessary information or the technical know-how to do that.

The IRS has a positive obligation to insure compliance among taxpayers, to educate and provide vital information and face-to-face assistance, where needed. Obviously, the IRS could never be expected to provide this information to every taxpayer, particularly in those cases where the information needed is complex and governed by intricate regulations. But for the taxpayers who rely on IRS taxpayer services, the information assistance is unusually straightforward and relatively easy to offer. Without this information and without these answers, many well-intentioned taxpayers, who otherwise could not afford private help, will actually be forced into noncompliance, either by filing incomplete or erroneously completed returns.

As will be testified to today, the last decade has seen the IRS assume the responsibility for providing effective taxpayer assistance. I applaud the efforts of Mr. Alexander and Mr. Kurtz during their respective tenures with the IRS to elevate taxpayer assistance to the same level of commitment given all other major IRS programs, including collections.

Mr. Chairman, I would ask that the balance of my statement be printed in the record and, again, I do want to commend the Chair for the leadership shown in a very critical area, where so many—I don't know if it's millions, but probably millions, if my memory serves me right—millions of taxpayers who absolutely find these services essential, and because the reduction in these services is so self-defeating in terms of the need both to taxpayers and for the collection needs of the Treasury.

Senator COHEN. Thank you, Senator Levin. Your statement will be entered in full.

[The prepared statement of Senator Levin follows:]

PREPARED STATEMENT OF SENATOR CARL LEVIN

Mr. Chairman: I want to commend you for convening this hearing on the recent shift of Internal Revenue Service resources away from its taxpayer service program. The array of services provided taxpayers under this program meet a real need for those taxpayers who have to turn to the IRS for answers and help in filing their returns. For many taxpayers, who in all good faith want to comply with IRS requirements, the provision of these services can make the difference between wanting to comply and being able to comply.

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The IRS does have a positive obligation to ensure compliance among taxpayers through education, reliable information, and face-to-face assistance where needed. Obviously, the IRS could never be expected to provide this information to every taxpayer, particularly in those cases where the information needed is complex and governed by intricate regulations. But for the taxpayers who rely on IRS taxpayer services, the information and assistance is unusually straight-forward and relatively easy to offer. Without this information and without these answers, many well-intentioned taxpayers, who otherwise cannot afford private help, will actually be forced into noncompliance either by filing incomplete or erroneously completed returns.

As will be testified to today, the last decade has seen the IRS assume that responsibility for providing effective taxpayer assistance. I applaud the efforts of Mr. Alexander and Mr. Kurtz during their respective tenures at the IRS to elevate taxpayer assistance to the same level of commitment given all other major IRS programs, including collections.

The apparent shift in IRS' taxpayer services policy as set by the current Administration is a disturbing one. The 1982 reorganization denied taxpayer assistance services its traditional separate divisional status, renamed it the Office of Tax Information, and transferred it to a new Assistant Commissioner for Examination. This is a curious move, indeed, because in 1971, the IRS separated taxpayer services from Collections on the common sense theory that the same IRS division could not effectively and fairly both assist and assess taxpayers.

More disturbing still is the fiscal year 1982 IRS reduction in its walk-in services and the discontinuation of its direct preparation and review of taxpayer returns. Rather, emphasis has been placed almost solely on the toll-free telephone service. For those taxpayers who need individual, face-to-face help, this shift in services is a real loss.

In my home state of Michigan, IRS statistics show that during fiscal year 1981, 21,351 taxpayers walked into IRS offices for help during the peak periods of January through April. Yet in fiscal year 1982, the IRS actually closed 12 of its 29 taxpayer assistance offices in Michigan and drastically reduced the level of services at the remaining 17. Where are the 14,000 people who walked in to the Southfield, Michigan office supposed to go for help now? To whom do the 12,000 people in Grand Rapids or the 11,000 in Kalamazoo now turn for information and assistance?

I well recognize that we are in a time of dwindling resources, but the questions which need answers today are questions about priorities, questions about the impact of this shift in IRS policy on the people most dependent on the taxpayer assistance provided by the IRS, and ultimately, its impact on taxpayer compliance and IRS collections.

I look forward to hearing the answers to these questions today, and again, Mr, Chairman, I commend you for your initiative in bringing these crucial issues to the forefront.

Senator COHEN. Mr. Alexander?

TESTIMONY OF DONALD C. ALEXANDER AND JEROME KURTZ, FORMER COMMISSIONERS, INTERNAL REVENUE SERVICE

Mr. ALEXANDER. My name is Donald Alexander and I am appearing here purely in my personal capacity as a witness invited by the committee.

I am deeply concerned, Mr. Chairman, and Senator Levin, about the 1983 budget of the Internal Revenue Service and the massive cutbacks on taxpayer service in that budget. When I was Commissioner, the Internal Revenue Service felt the commitment that Senator Levin described, to increase the resources devoted to assisting taxpayers to try to comply with their obligations as citizens to file correct and complete tax returns reporting their income properly, claiming their deductions and credits properly, despite the enormous complexities of the tax laws. And these complexities are not limited to the higher-income taxpayer. The complexities find their way into such new entrants in our tax law as the earned income credit that came into law when I was Commissioner, and we found a vast number of taxpayers not understanding the credit and not being able, by reason of that lack of understanding, to claim the money due to them from the system by reason of their qualification.

What we did was expand taxpayer service because of our understanding of a commitment to help taxpayers comply with the law. We felt that the Internal Revenue Service, being in the business of administering and enforcing the tax system and collecting taxes, could not say that it was out of the business of assisting people to meet their responsibilities.

So we installed a toll-free telephone system—it became effective in 1974—to try to provide the most assistance at the least cost to the most taxpayers.

Now we find a 1983 budget proposal which would emasculate that system in two respects: first, by greatly reducing the number of people to answer calls; and second, by not answering substantive questions about the tax system.

Now that is, as has been pointed out, a long step in the wrong direction. I sympathize with the Commissioner. I know that Commissioner Egger is doing an excellent job and doing his best to provide all the services that the Internal Revenue Service must perform to administer our tax system properly. But budgetary restraints are usually imposed outside the Service by others—and the Commissioner has to be a good soldier. Well, I don't have to be a good soldier, and neither does former Commissioner Kurtz.

I'm not altogether sure that I was the best soldier when I was in office, and I'm surely not one now. And I hope that the proposed cuts can be reversed.

Senator COHEN. I think that both of you received an honorable discharge from the service.

Mr. ALEXANDER. Perhaps. Well, section 8. [Laughter.]

Isn't that appropriate? One more point. It has been suggested that taxpayers can have their questions answered by looking carefully at Internal Revenue's forms and publications. Well, we had a study back a few years ago and found that you had to read at a graduate level, I think, college graduate level or a little bit above, to understand those forms and publications. We did our best to try to simplify them, and I know that Commissioner Kurtz carried this further and Commissioner Egger is now working on the problem.

The law is so darned complicated that taxpayers can't find their way to the correct publications. I think they number about 133. And frequently you have to know the answer to a tax question to know what question to ask. So this won't work.

Should the taxpayers of this country be forced to pay commercial preparers? I don't think so.

Moving the Internal Revenue Service out of this aspect of its work will create a void, which may be filled by private sector people, it would seem to me that those people could be better engaged in more productive efforts in our Nation's economy. You can't eat a tax return, wear a tax return, ride in one, or brush your teeth with one. Forcing the diversion of resources in the private economy to this field, toward assisting people to meet their responsibilities as citizens to our tax system, is, I think, an unwise move, even if one looks only at the private sector aspect.

Senator COHEN. Mr. Kurtz?

Mr. KURTZ. Mr. Chairman, Senator Levin, I appreciate your invitation to participate in the hearing this morning on this very important subject. I appear in my individual capacity.

Handling the instructions that Don Alexander talked about reminded me of a story that appeared in the newspaper while I was Commissioner. We had worked long and hard to try to simplify forms and instructions, and had an analysis done by reading experts who concluded that the instructions in the 1040A form were at a ninth grade reading level. A reporter who happened to have a daughter in the ninth grade, seeing that report took the form and instructions to her class with a simple problem and, of course, the error rates were almost 100 percent.

The conclusion was that ninth graders don't read at the ninth grade level today. [Laughter.]

The administration's proposed budget for the Internal Revenue Service for fiscal year 1983 would significantly reduce the funds available for taxpayer service. According to IRS budget documents, the total staff years employed in taxpayer service functions for fiscal year 1981 were 5,325. For fiscal year 1982, it is estimated, 4,818. And proposed for 1983, 3,127, a decrease of over 40 percent from the 1981 levels.[1]

The taxpayer service activity covers various functions, including furnishing telephone and walk-in assistance, answering correspondence, the problem resolution program, tax forms distribution, and various educational activities. Most of these programs would be maintained in 1983 under the budget at the 1982 levels, except that practitioner institutes and small business programs would be eliminated.

The major reduction, however, will occur in the telephone assistance rendered by the Internal Revenue Service. Telephone assistance has been the principal method of answering taxpayers' questions. During fiscal year 1980, the IRS answered 35 million telephone calls, 36 million during 1981, and will answer an estimated 34 million during the current fiscal year, the small decline being due to budget cuts.

Under the 1983 budget, the change will be dramatic. The budget would reduce the number of staff years employed to handle toll-free telephones from over 2,800 to 1,100, a 40-percent reduction. As a result of this reduction, as Commissioner Egger testified last week before the House Commerce, Consumer and Monetary Affairs Subcommittee the service will discontinue completely answering substantive tax questions by telephone. It will reduce the telephone calls answered from 34 million this year to approximately 12.6 million next year, all of which, it is anticipated, will be related to information concerning the status of accounts or refund claims, rather than substantive questions.

Presumably, a taxpayer calling the IRS with a question connected with the preparation of his return will be told by the IRS that it will not answer the question.

While the Service says that it will answer questions for taxpayers who visit its offices, there is no provision for increases in staff for these offices. It is therefore difficult to understand how the increased workload will be handled. As it is, taxpayers frequently have to tolerate long waits at the IRS offices before there is an employee available to discuss his or her problem.

It's worth mentioning that during the last few years, when the Service was answering approximately 35 million telephone calls a year, there were still significant numbers of taxpayers who could not get their calls answered. I believe the level of service—that is, the number of taxpayers getting through to the IRS, compared to those who tried—has never exceeded an estimated 85 percent and has usually been significantly below that rate.

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[1] See p. 250.

These figures, I might add, assume that taxpayers will try several times to get through if confronted with busy signals or incompleted calls.

I really can't imagine what the situation will be like next filing season if this budget is enacted. The IRS will be staffed to handle 12 million calls. But 40 million or more taxpayers will try to call. Even an answer on the telephone refusing to give information requires an answer and will occupy telephone time.

It seems to me that the situation will be chaotic. Even taxpayers with a type of question the Service says it will answer, those relating to account status, will be unlikely to get responses during the filing season.

The justification given for abandoning substantive taxpayer assistance by telephone is that the answers to approximately 45 percent of the questions asked could have been found in the 1040 or 1040A tax package and that another 45 percent could have been found in one or more publications of the IRS.

That a tax law specialist can find the answer in an IRS publication hardly addresses the problem of the large numbers of taxpayers who have difficulty understanding the instructions as applied to their situation or who do not have, cannot get, or do not know about the various IRS publications on specific topics.

The Service also intends to rely on its new teletax program to become a significant factor ameliorating the absence of personal taxpayer assistance by telephone. I invite you to judge for yourself the usefulness of that system by calling the experimental teletax service which is now in operation in Baltimore. It is hardly a substitute for a knowledgeable person on the other end of the phone who can discuss a taxpayer's particular problem and give a concrete answer to a specific factual question.

I believe the proposed reduction in taxpayer service is foolish. While the effect of taxpayer assistance on compliance cannot be measured, it seems clear to me and to many others who have participated extensively in tax administration that there is such an effect and that it may be substantial.

The taxpayer who, for example, cares enough about whether a particular expenditure may be deductible to call the IRS and ask for advice may well feel justified in resolving all doubts in his or her favor if the IRS refuses to give that advice.

Moreover, we should be concerned about the question of fairness. Our Government is financed largely by a self-assessment individual income tax system which is inordinately complex. We require taxpayers to compute and pay their own liabilities. It seems to me, under those circumstances, the Government has an obligation to help taxpayers fulfill their obligation.

Our tax system faces serious compliance problems, stemming at least in part from a perception among taxpayers that our system is unfair. To compound that problem by administering the system unfairly, by not providing assistance, is horribly shortsighted.

Our system rests on a tradition of compliance which should not be taken for granted. And once lost, it will not be easily regained.

Thank you, and I'd be happy to answer any questions.

Senator **Cohen**. Thank you very much, Mr. Kurtz. For your information, we do intend to play a tape recording of that new system, the Tele-Tax answering service, so that those in the audience will have an opportunity to judge for themselves whether this will be helpful or constructive in solving taxpayer problems.

Before doing that, I have couple of general questions. Mr. Alexander, I assume that you were correct when you gave the benefit of the doubt to the present Commissioner, as well as your sympathies, suspecting that he is not the one making the recommendations to reduce taxpayer assistance. He has found himself in a situation where his budget has been dramatically reduced in some aspects and increased in others. The shift has been away from taxpayer assistance to examination and collection.

Underlying that shift is a determination made, perhaps at the Secretary of the Treasury or OMB level, that those taxpayers who need the assistance, the 44 million who requested assistance in fiscal 1981, probably don't pay as much in the way of taxes as the people they want to go after; namely, the high-income taxpayers out there who are either avoiding or evading taxes. IRS wants its team of auditors to try and catch them.

I assume that is the rationale behind it. I'd like your judgment as to whether or not, in the long run, that would be a justification for trying to refocus the direction of IRS tax administration—collecting more taxes from those in the higher income levels, as opposed to assisting those who fall in the broad category of low income, elderly. My understanding is that these are the people who call most frequently for assistance to the IRS.

Mr. **Alexander**. Yes, I believe that your understanding on the latter point is clearly correct, that the lower income people, the elderly, those that have difficulty getting outside professional help or simply can't afford it, and who want to meet their responsibilities are those who call.

I believe, however, that the higher income individuals, although contributing far more, I hope, to the system per individual than the vast majority of taxpayers, don't contribute collectively to the system anything like as much as the vast majority of the middle or lower income taxpayers. That's where our tax revenues come from, primarily.

I don't want to put the new Commissioner on the spot. The new Commissioner has a duty to support the budget and he is performing that duty very well, indeed. It's purely my speculation that the IRS did not want to damage the taxpayer service program as badly as it will be damaged by the proposed cut.

Senator **Cohen**. Is it your judgment, then, that this is a shortsighted policy, and that short-term savings from the budget reductions are going to result in long-term losses to the Treasury by virtue of the fact that voluntary compliance will decrease?

Mr. **Alexander**. I want to join Comissioner Kurtz's statement to that effect. I think that this is a shortsighted policy, that it will damage the tax system, that it will impair compliance, and that it will impair compliance dramatically. If the Internal Revenue Service refuses to assist taxpayers, I think that that discredits the tax system in the minds of those taxpayers and I believe that taxpayers are governed, in part, by their respect for the system, by their belief that the system is essentially fair and is equitably and efficiently enforced and administered.

And if they are turned off by the system, I think that their attitude toward their compliance with the system will diminish. And the Internal Revenue Service doesn't have the resources, nor should it ever have the resources, to make compliance effective if the vast majority of our citizens don't want to comply.

I am troubled by the shortrun effect on compliance and the longrun effect. Once the system is turned off, it is very difficult and expensive to reinstitute. And this system will be turned off by the budget cuts we are discussing.

Senator COHEN. You're both in the private sector now. Do you feel, based upon your experience as private citizens, that the private sector is going to be willing and able to provide quick, responsive answers to tax inquiries coming from telephone calls or walk-ins?

Are you going to have a service that will provide answers to tax questions and charge $1.00 or $5.00 per answer? Can there be any kind of a system like that?

Mr. KURTZ. I don't know. I certainly can't imagine a system that would begin to handle 40 million telephone inquiries a year. In absolute dollar terms, this is an expensive proposition. I think that we're talking about significant amounts of money for which it would be very hard to be reimbursed.

I might add that walk-in assistance is not for many people in any way a substitute for telephone assistance. Not everyone lives near an IRS office. Even during filing season, when the IRS, at least in the past, and I don't know what the new budget would have provided, opens some temporary offices, you had perhaps 800 or 900 offices spread throughout the country.

So there are many, many, many taxpayers who live considerable distances from offices. The telephone system, which started under Commissioner Alexander, provides toll-free telephone service to almost everyone in the country. Walk-in assistance doesn't begin to substitute for that.

And it's hard for me to see the private sector picking up that part of it.

Mr. ALEXANDER. If I understand the Internal Revenue Service 1983 budget, the walk-in service, to the extent that we have had it in 1982, would simply maintain its present level with a tiny, totally insignificant, increase. And I don't believe that that's devoted to assisting taxpayers to meet their filing responsibilities as much as it may be to tell taxpayers about their accounts with the increased emphasis on collection, Mr. Chairman, that both you and Mr. Levin have mentioned. And with that increased emphasis, there are bound to be more taxpayer inquiries.

In that particular respect, I don't see how the private sector could possibly be, or would possibly be, expected to fill the role of the toll-free telephone system. How are they going to charge for it? They charge by having somebody walk in and have his or her return prepared. And some of the people who perform this particular role in the private sector do a good, conscientious job, but some of them are like the outfit that handed me a form one time when I was in the Internal Revenue Service which said, two refunds, absolutely guaranteed. Guaranteed to all taxpayers, mind you, whether or not the taxpayer was entitled to a refund. I thought that that was a very interesting attitude for a tax preparer to take.

Mr. KURTZ. I might add, Mr. Chairman, that there is a factor here of overall efficiency. Taxpayers with questions will not stop calling the IRS because the IRS won't furnish the information. The toll-free telephone system, with specialists answering telephone inquiries, was set up to improve efficiency. Prior to that time, it's my understanding, taxpayers simply called the District Director's Office and they got somebody on the telephone and asked the question.

And it is very hard on a person-to-person basis for a revenue agent, let's say, who happens to be in the office and picks up the telephone, to say, I won't tell you. I mean, the Internal Revenue Service people are very nice people and they like to be helpful. And they will, in fact, answer the telephones, I'm convinced, and they will, in fact, give some limited information to those few people who happen to get through.

Meanwhile, high-graded revenue agents who ought to be out doing examinations will be answering telephone inquiries. The same thing happens with walk-ins. And I have seen this during the filing season in district offices. You allocate a certain amount of resources to a walk-in area and that's all the resources that are supposed to be used. But when the lines get such that there is an hour and a half wait, the District Director can't stand it any more. So he goes upstairs into the room where there are revenue agents and he says, come on, let's get down there and take care of this crowd.

So, again, you have higher graded revenue agents filling in for work which should be done by lower graded, less costly specialists. It's very inefficient. It doesn't provide adequate levels of service. But it's not cost-free. The service simply cannot be avoided completely.

Senator COHEN. Well, Mr. Kurtz, let me say that I appreciate what you are suggesting, but I suspect that one way that the Internal Revenue Service would cope with that is simply to put an answering service on the line, instead of a revenue agent, with a prerecorded message saying, "We don't give out information. Go see your local volunteer group or go to a commercial firm."

Mr. KURTZ. Right.

Senator COHEN. As far as the walk-ins, I don't know how they're going to deal with that. I assume that the IRS will have to have somebody screen the individuals coming in for any handicapped, illiterates, or Members of Congress.

It doesn't get to the problem of what I think Mr. Alexander was talking about, and that is what happens if, in fact, the Federal Government becomes the adversary? What happens if the IRS is the enemy instead of an agency to collect what most people feel they have an obligation to pay?

It seems to me that you're absolutely right, Mr. Alexander. If the Internal Revenue Service is simply seen as a hard-nosed, very aggressive, highly staffed agency filled with auditors out to enforce the rule of law, then what that will do is cause even more people to go to the underground economy and not pay. That's something that I'm not sure that we could ever recapture.

So I think that that really is the ultimate answer to this problem—not whether we could be more efficient and collect more from higher income sources, but rather, what do we do once people look at the IRS as the enemy. Taxpayers will ignore their tax obligations or give returns which are conclusively in their own favor or not file returns at all. The taxpayer's attitude in this case is "let's see if they can catch up with me."

I think if that attitude even starts to set in, the IRS will have to spend millions upon millions of dollars on public relations programs to reestablish the patriotic obligation to contribute tax dollars on a volunteer basis. In the mean time, I think we're going to lose a great deal of money.

One final thing before I yield to Senator Levin on this. The present Commissioner has indicated that this elimination of the free tax law telephone service will be merely an "inconvenience" for taxpayers. Did you find during your experience at the IRS that people endured the long waits on the telephone and stood in lines at walk-in offices, thereby indicating that it would be more than an "inconvenience" to have the IRS tax law advice eliminated?

In other words, the Commissioner is suggesting that this is simply an "inconvenience" and that taxpayers can get the same information from the tax publications—133 or more of which exist. According to the IRS, there's no problem. Would you please comment?

Mr. ALEXANDER. I don't understand that. I'm not sure that the present Commissioner's statement today suggests that. He, of course, can and will speak for himself a little later. Certainly, there were delays, particularly when the system was first introduced. And the delay is exasperating to people and many taxpayers would tend to call about the same time during the day and on the same day and that creates peak loads that the Internal Revenue Service, during my tenure, had difficulty coping with.

But the Internal Revenue Service surely tried. And the answer to the delay problem is not to wipe out the system because there are delays, but try and improve the system so that there won't be delays. Responding by telephone is far better, I think, and Commissioner Kurtz said the same thing more eloquently, than forcing people to dig their way through 133 publications, some of which are turgid reading that rival *Ulysses*, in my judgment, when they don't know what they're looking for and when they don't know how to phrase the right question, and when they're not tax law specialists who are reading to discover whether the question is actually answered in IRS publications.

Publications are no adequate solution to the problem, nor are the volunteer groups who cannot be appropriately supervised and corrected and improved, and who give rather haphazard service, good at times and very poor at other times.

Mr. KURTZ. The fact of the matter is, Mr. Chairman, that during this current filing season, there will be 20 to 25 million taxpayers who, in fact, call with a question and receive an answer. Now the fact that they may have to wait a little bit longer on the phone, it seems to me, is completely outweighed by the fact that they want help and they seek it and they get it. There are 25 million taxpayers, presumably, next year who will want advice and will seek it and won't get it.

I agree completely with the effect that that is likely to have on compliance. I was only suggesting that there is another, really, incidental effect in eliminating this service. But the core issue, I agree with you, is certainly the compliance issue, the attitude that will be reflected.

Senator **Cohen**. Well, it can go beyond the larger issue of what's happening in our life, when Toffler starts talking about the massification of institutions, for example. People start picking up a phone and they get a recording on the other side. Mr. Alexander, you tried to humanize the Government as far as the IRS is concerned. So what happens when you start getting these pre-recorded messages saying, "Sorry, we can't provide answers to tax law questions"?

That's another element altogether, but I think that that is a part of this issue as well. Senator Levin?

Senator **Levin**. Thank you, Mr. Chairman. Just a few points. First, the loss of fairness and equity, the loss of clients, which means lots of tax money for the Treasury. In your opinion, is this both a short-term and a long-term result? Is that true?

Mr. **Kurtz**. Yes.

Mr. **Alexander**. That's correct.

Senator **Levin**. And second, the people who use this service, I presume, are the ones that are the least able to hire a commercial service or a tax lawyer. Is that a fair assumption?

Mr. **Kurtz**. I don't believe that there are studies that would in any accurate way tell us about that. But I think that it is a fair assumption if you look at the type of questions that are asked. There is information on that. They tend to be questions which would appear most frequently on lower income returns.

They are, by and large, relatively simple questions, but the person calling doesn't know the answer to them.

Senator **Levin**. Do you know whether or not the people who are calling are usually people who cannot afford to hire a taxpayer service or a lawyer?

Mr. **Alexander**. I believe that the situation is as former Commissioner Kurtz described. I think they are people who are least able to employ outside professionals. In the first place, if someone is in a position to employ an outside professional, that person, for reasons of trying to dig out the most deductions and classify income as capital gains and such things, is more likely to go to a professional than to the Internal Revenue Service, often perceived, as the chairman pointed out, as an adversary rather than a copartner in an effort to produce the correct amount of tax.

Now I don't know of any studies that were made when I was Commissioner on the taxpayer profile of those who use the taxpayer service. But I believe, and have every reason to believe, that those are the lower income people, the handicapped people, the elderly people, the people who have a duty to the system and want to comply with the system, but can't understand the system.

Senator LEVIN. What this means, then, is that here is a cut in the budget which does not go after waste, fat, fraud, or abuse, but goes after a highly necessary, legitimate function of Government.

Mr. ALEXANDER. That is correct.

Senator LEVIN. And the budget cut doesn't protect the neediest; it hurts the neediest in our society.

Thank you, Mr. Chairman.

Senator COHEN. Just one final point. I think that, consistent with this notion of encouraging citizens to pay their taxes, has been President Reagan's program of trying to cut the level of individual and corporate taxes. The higher the tax level, the more incentive there is to seek ways to avoid paying taxes and to spend large sums of money hiring professionals to engage in tax shelters.

I think that the Government at the very highest levels has recognized the fact that we overtax our individuals and consequently discourage savings and investment.

So this seems to be contrary to the direction that we're going in, if, in fact, we set up that adversarial relationship between the IRS and the taxpayer.

Gentlemen, thank you very much. You've been most helpful and I think you've made a great contribution to the record.

[The prepared statement of Mr. Alexander, with attachment, follows:]

PREPARED STATEMENT OF DONALD C. ALEXANDER

My name is Donald C. Alexander and I am a partner in the Washington office of Morgan, Lewis & Bockius. I am appearing, solely in my personal capacity, at the invitation of the Subcommittee to discuss the Internal Revenue Service's taxpayer assistance programs.

The Internal Revenue Service is required to enforce and administer our tax laws. Incumbent in this is the obligation to help taxpayers comply with the laws. The IRS has no business telling taxpayers that they must comply with the law but that the IRS will not tell them how to comply.

The tax system in this country is based on the voluntary compliance of taxpayers, and is dependent on the public's belief that the system is reasonably fair and is uniformly and adequately enforced. The government relies on taxpayers correctly filling out their own returns and filing them on time. Many taxpayers can do this without assistance from either the IRS or paid preparers. But many others cannot. We call on taxpayers to determine whether they need to file a return, whether any tax is due, and to self-assess themselves. Almost every year the tax laws change and taxpayers are expected to understand those changes and apply them correctly. It is manifestly unfair to refuse assistance to taxpayers in meeting these burdens.

The benefits to the government of a voluntary tax system are many, and there are corresponding responsibilities. These are to respond to taxpayers' questions on their rights and responsibilities, and on the application of the tax laws to them. The government should also provide direct assistance in filling out tax forms to those taxpayers who need it. These services must also be made readily available.

Since the early 1940's, the IRS has been providing taxpayer service. In 1971, a separate Taxpayer Service Division was established at the national level, and separate taxpayer service divisions at the district level were authorized in 1975. In 1976, my last full year as Commissioner, the IRS continued to expand taxpayer service. A Taxpayer Service Specialist position was created to provide more highly qualified individuals to handle difficult technical inquiries. A GAO report published in 1976 emphasized the significant increase in the need of individual taxpayers for assistance. The GAO found that this resulted from the large increase in the number of taxpayers subject to tax and to the complexity and difficulty of the tax laws. In past years, the IRS has responded to this need by steadily increasing the budget for taxpayer service. From 1976 to 1982, the level of funding for taxpayer service increased by 80 percent, from $126.6 million to $230.5 million.

The Internal Revenue Service now has a number of services which, if adequately funded, do a good job of helping taxpayers. The toll-free telephone lines can provide immediate assistance to any taxpayer with access to a telephone. Since its inception as a nationwide toll-free system in 1974, it has become the single most heavily used tool to provide taxpayer assistance. It is an excellent means of providing direct help in an efficient, low-cost way. Personnel in IRS walk-in offices also provide a variety of services. Although not as cost efficient as telephone taxpayer assistance, walk-in services add substantially to telephone assistance by providing a "hands on" method of answering questions face to face and providing self-help return preparation.

Other services funded by IRS also provide indirect help. Taxpayer education and information programs, disseminated through the mass media, and publication of instructional materials can be of assistance to many taxpayers. However, programs based on training volunteers in tax preparation who then assist other taxpayers, such as VITA, are not as successful. It was my experience as Commissioner, and I believe that this continues to be true, that volunteer tax preparer programs should be part of an overall taxpayer outreach program but cannot replace the services of trained IRS personnel. The level of accuracy of volunteer-prepared returns, while improved over past years, is not as good as it should be, and the difficulty of monitoring volunteer assistance make volunteer programs an inadequate substitute for direct IRS assistance.

I am deeply concerned about the proposed 1983 budget for taxpayer service. The severe cuts in dollar amounts and staffing levels, the increased emphasis on volunteerism, and the proposed shift in the character of toll-free telephone assistance and walk-in services from substantive tax law to purely clerical responses to questions on refunds and notices, will render the concept of taxpayer assistance virtually meaningless.

The proposed 1983 budget represents a reduction in authorized levels of funding of 15 percent, a reduction in the number of average positions of 35 percent, and, most significantly a reduction in the number of taxpayers assisted of over 56 percent. The IRS proposes to fund 3,127 average positions of which only 2,394 represent taxpayer information service positions. (The remainder are accounted for by information returns, disclosure, tax forms distribution and problem resolution programs.) The bulk of the reduction in positions appears to be in the toll-free telephone assistance programs. Only 1,122 positions will be funded for telephone assistance, a reduction of over 60 percent from 1982. In 1982, it is estimated that about 34 million telephone calls will be answered. In 1983, it is estimated that only 12.6 million will be answered and these will be limited to nonsubstantive tax questions.

The proposed budget for telephone assistance represents not only a continuation of the reductions in the number of positions for taxpayer service from 1981 levels, but also a departure from last year's stated intent to compensate for decreases in walk-in services by increasing telephone service. The 1981 IRS Annual Report states that in 1980, IRS responded to 35 million telephone inquiries on taxpayer rights, obligations and available tax benefits. If the proposed reductions are implemented, by the end of calendar year 1983, telephone taxpayer service will assist only slightly more than one-third as many taxpayers as in 1981.

It has been suggested that answers to most tax questions can be found in IRS publications. Every Commissioner attempts to simplify the tax forms and provide better accompanying instructions and publications. It is unrealistic, however, to expect that tax form instructions will contain answers which are readily apparent and easily understood by every taxpayer and that IRS publications will fill the void. The tax forms and publications alone cannot provide answers to many questions, and many taxpayers are not in a position to search out the proper publication and find the needed answer. The attached list of IRS publications illustrates this problem.

The proposed reductions in the 1983 budget come at a time when IRS estimates a 2.5 percent increase in the number of individual taxpayer returns to be filed, and when IRS is experiencing consistent reductions in the levels of voluntary compliance. Moreover, IRS has proposed to step up enforcement and collection by increasing the number of positions in certain programs by 5,225 at a cost of $154 million. Increasing taxpayer compliance is an important goal. But taxpayers will have cause to question the increased emphasis on enforcement and collection occurring at the same time as reductions are being made in the services intended to help taxpayers comply with our complex law. Moreover, reducing assistance programs necessarily reduces compliance.

In conclusion, I believe that the proposed funding for the IRS budget for 1983 for taxpayer service is grossly inadequate. Our government has a responsiblility to provide assistance to taxpayers, and we should not force them to pay for advice on how to meet their responsibilities.

NUMERICAL LIST OF PUBLICATIONS

Publication No.	Volume 1 Description
5	Appeal Rights and Preparation of Protests for Unagreed Cases
15 (Circular E)	Employer's Tax Guide
17	Your Federal Income Tax
34	United States Government Seizure Warning
51 (Circular A)	Agricultural Employer's Tax Guide
54	Tax Guide for U.S. Citizens Abroad
80 (Circular SS)	Federal Tax Guide for Employers in the Virgin Islands, Guam, and American San
213	Employee Withholding Notice
225	Farmer's Tax Guide
334	Tax Guide for Small Business
349	Federal Highway Use Tax on Trucks, Truck Tractors, and Busses
378	Fuel Tax Credits
448	Federal Estate and Gift Taxes
463	Travel, Entertainment, and Gift Expenses
486	1981 Special Enrollment Examination
493	Supplement to Employer's Tax Guide
501	Exemptions
502	Medical and Dental Expenses
503	Child and Disabled Dependent Care
504	Tax Information for Divorced or Separated Individuals
505	Tax Withholding and Estimated Tax
506	Income Averaging
508	Educational Expenses
509	Tax Calendar for 1982
510	Excise Taxes for 1982
512	Credit Sales by Dealers in Personal Property
513	Tax Information for Visitors to the United States
514	Foreign Tax Credit for U.S. Citizens and Resident Aliens
515	Withholding of Tax on Nonresident Aliens and Foreign Corporations
	Volume 2
516	Tax Information for U.S. Government Civilian Employees Stationed Abroad
517	Social Security for Members of the Clergy and Religious Workers
518	Foreign Scholars and Educational and Cultural Exchange Visitors
519	U.S. Tax Guide for Aliens
520	Tax Information for U.S. Scholars
521	Moving Expenses
522	Disability Payments
523	Tax Information on Selling Your Home
524	Credit for the Elderly
525	Taxable and Nontaxable Income
526	Charitable Contributions
527	Rental Property
529	Miscellaneous Deductions
530	Tax Information for Homeowners
531	Reporting Income from Tips
533	Self-Employment Tax

Publication No.	Description
534	Depreciation
535	Business Expenses and Operating Losses
537	Installment Sales
538	Accounting Periods and Methods
539	Employment Taxes
541	Tax Information on Partnerships
542	Tax Information on Corporations
544	Sales and Other Dispositions of Assets
545	Interest Expense
547	Tax Information on Disasters, Casualties, and Thefts
548	Deduction for Bad Debts
549	Condemnations of Private Property for Public Use
550	Investment Income and Expenses
551	Basis of Assets
552	Recordkeeping Requirements and a List of Tax Publications
553	Highlights of 1981 Tax Changes
554	Tax Benefits for Older Americans
555	Community Property and the Federal Income Tax
556	Examination of Returns, Appeal Rights, and Claims for Refund
556S	Examination of Returns, Appeal Rights, and Claims for Refund (Revision de las declaraciones de impuesto, derecho de apelacion y reclamaciones de devolucion)
557	How to Apply for and Retain Exempt Status for Your Organization
558	Tax Information for Sponsors of Contests and Sporting Events
559	Tax Information for Survivors, Executors, and Administrators
560	Tax Information on Self-Employed Retirement Plans
561	Determining the Value of Donated Property
564	Mutual Fund Distributions
567	Tax Information on U.S. Civil Service Retirement and Disability
570	Tax Guide for U.S. Citizens Employed in U.S. Possessions
571	Tax-Sheltered Annuity Programs for Employees of Public Schools and Certain Tax-Exempt Organizations
572	Investment Credit
575	Pension and Annuity Income
578	Tax Information for Private Foundations and Foundation Managers
579S	Como Preparar La Declaracion De Impuesto Federal
582	Federal Use Tax on Civil Aircraft
583	Recordkeeping for a Small Business
584	Disaster and Casualty Loss Workbook
585	Voluntary Tax Methods to Help Finance Political Campaigns
586A	The Collection Process (Income Tax Accounts)
586S	The Collection Process (Income Tax Accounts) Proceso de Cobro (Deudas del Impuesto Sobre Ingreso)
587	Business Use of Your Home
588	Condominiums, Cooperative Apartments, and Homeowners Associations
589	Tax Information on Subchapter S Corporations
590	Tax Information on Individual Retirement Arrangements
	Volume 3
593	Income Tax Benefits for U.S. Citizens Who Go Overseas
594	The Collection Process (Employment Tax Accounts)
595	Tax Guide for Commercial Fishermen
596	Earned Income Credit
597	Information on the United States–Canada Income Tax Treaty

Publication No.	Description
598	Tax on Unrelated Business Income of Exempt Organizations
678	Volunteer Income Tax Assistance Course Book
678-M	Volunteer Income Tax Assistance Military Supplement
686	Certification for Reduced Tax Rates in Tax Treaty Countries
693	Special Enrollment Examination, 1980
721	Comprehensive Tax Guide for U.S. Civil Service Retirement Benefits
794	Favorable Determination Letter
803	VITA Guidelines
816	Tax Information for Families and Executors of Missing Servicemen
850	English-Spanish Glossary of Words and Phrases Used in Publications Issued b the Internal Revenue Service
876	Privacy Act Notice
882	Magnetic Media–Reporting of Information Returns
892	Exempt Organization Appeal Procedures for Unagreed Issues
900	Index to Tax Publications
901	U.S. Tax Treaties
903	Energy Credits for Individuals
904	Computing the Interrelated Charitable, Marital, and Orphans' Deductions and Ne Gifts
905	Tax Information on Unemployment Compensation
906	Targeted-Jobs and WIN Credits
907	Tax Information for Handicapped and Disabled Individuals
909	Minimum Tax and Maximum Tax
1004	Identification Numbers Under ERISA
1017	For the Deaf and Hearing Impaired Free TV-Phone/TTY Tax Help on Federal Taxes from IRS
1018	Tax on Unrelated Business Income of Churches
1035	Extending the Tax Assessment Period
1045	Information and Order Blanks for Preparers of Federal Income Tax Returns
1048	Filing Requirements for Employee Benefit Plans
1049	IRS Clip Sheet
1054	Questions and Answers–Highlights of Rules for Tax Return Preparers
1060	Employee Benefit Plans–Minimum Participation Standards
1061	Employee Benefit Plans–Minimum Vesting Standards (Defined Contribution Plans)
1062	Employee Benefit Plans–Minimum Vesting Standards (Defined Benefit Plans)
1063	Employee Benefit Plans–Joint & Survivor
1064	Employee Benefit Plans–Miscellaneous Provisions
1065	Employee Benefit Plans–Coverage & Discrimination
1066	Small Business Tax Workshop Workbook
1106	Tax Counseling for the Elderly
1116	Preparing Foreign Earned Income Cost-of-Living Differentials for Income Tax Purposes (Tax Year 1981)
1140	Special Enrollment Examination Background Material for Applicants
1148	Currency Transaction Reporting Requirements

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Senator COHEN. Our next witness is Deborah Schenk, a professor at Harvard University Law School, who is associated with Community Tax Aid, an organization serving low-income taxpayers.

Ms. Schenk, we appreciate your coming this morning. We look forward to hearing from you.

TESTIMONY OF DEBORAH H. SCHENK, PROFESSOR, HARVARD LAW SCHOOL

Ms. Schenk. Thank you, Senator Cohen. I, too, speak for myself, but in some respects I also speak for the low-income taxpayer who is not represented here today.

As you mentioned, I do work with two community groups that provide free tax assistance and I am in contact with the VITA program at Harvard Law School. So that perhaps I could speak most confidently about the alternatives to the IRS cutbacks.

I would first like to echo the remarks made by former Commissioner Kurtz and former Commissioner Alexander. I would join them in agreeing that this is a mistake, both in the short run and in the long run.

The overwhelming majority of low-income taxpayers—that is, those who are most likely to be affected by this budget cut, are entitled to a refund, due either to overwithholding or to the earned income credit. One effect of the lack of taxpayer assistance that no one has yet mentioned is that, in all probability, these taxpayers who will not be able to file, will not get the refund or earned income credit, to which they clearly are entitled. The refunds will simply go unclaimed.

This obviously has a great effect on these individual taxpayers, but I think it has a greater effect on compliance and on the public perception of the Internal Revenue Service.

Many of these taxpayers know that they are entitled to a refund because they have always received a refund. We are treading on very dangerous waters when we say to these taxpayers that although we know you're entitled to a refund, and we know that you cannot file your return, we are not going to help you in getting that refund. Most low-income taxpayers depend on their refunds to exist for several months after they receive them.

It is an idle platitude to say to taxpayers that you must file a return, if we know, and I think that all of us know, that these taxpayers do not have the ability to file a return. They do not have the wherewithal to use a paid preparer, and there simply is not enough access to free assistance. Taxpayers who in the past have turned to the service for assistance will, in all probability, not file a return. I think we should all be troubled by the prospect of taxpayers who are entitled to refunds or the refundable earned income credit, being unable to file because they cannot understand the return or obtain assistance.

There are already a great many danger signals and ominous warnings that our self-assessment system is faltering. We've already heard this morning mention of the large underground economy, actions taken by tax protesters, and the audit lottery, which all threaten our reliance on voluntary compliance. We should not add to this list of problems failure to file returns due to a lack of assistance.

It is extremely unwise to create the impression that a return need not be filed or that nothing will happen if it's not filed. If the nonfiling taxpayer is due a refund, I suspect the Service is unlikely to pursue the matter, particularly against a low-income taxpayer. Not only does the taxpayer lose his refund, but he believes the filing of a return is not necessary.

Even if a taxpayer, particularly a low-income taxpayer, is able to file his return, it is likely to be inaccurate if he has no place to turn for technical assistance. By 1983, the IRS will have essentially phased out all prefiling taxpayer technical assistance. Thus, even if the taxpayer wants to file an accurate return, but has questions as to how to do so, there may be no one in the Government able to help him. These mistakes will result in increased audit time or lost revenues.

I might point out, in what is sure to be an unpopular comment, that it is my understanding that the free tax assistance for Congressmen has not been terminated. If the architects of our tax laws continue to need help, then surely, low-income taxpayers need assistance.

It is naive to think that taxpayers are not going to need increased assistance to complete their tax returns. Although the Service is testing simpler forms, they will not be available on a widespread basis for several years. Even when they are available, I question whether most low- and middle-income taxpayers will be able to prepare their own returns. Since the prospect of full-scale simplification is nowhere in sight, we can expect that one half of the returns filed, which I think is a very conservative estimate, will continue to be prepared by someone other than the taxpayer.

I would like to address the possibility that there are alternative sources of technical assistance.

In his written statement, the Commissioner points out that there are alternatives—particularly use of the forms, the instructions, and the information booklets which the IRS publishes. It is probably true, as he says, that 45 percent of tax law questions could be answered from these packages. In my experience, 10 years of preparing income tax returns for free, I have yet to meet a low-income taxpayer who could understand the forms or the instruction booklets, to say nothing of publication 17 or the other publications that the Service provides.

It is also my understanding that the Service intends to rely on its volunteer programs, the volunteer income tax assistance program, and the tax council for the elderly program. Such reliance is totally misplaced. While the thousands of VITA volunteers are well intentioned and generous, they are poorly trained, poorly supervised, and often poorly situated.

The program at Harvard Law School, which is apparently one of the largest in the country, is in some ways typical and in some ways atypical. It is atypical in that we clearly have very intelligent, fairly well-trained volunteers handling tax returns. However, there are no prerequisites to being a volunteer. They need have no minimum education, no prior tax experience, and no experience in interviewing taxpayers. The test which volunteers pass is so simplistic that one could easily pass it and not be considered at all competent to do a tax return.

The returns prepared by our volunteers are not reviewed by anyone. The most inexperienced volunteer can prepare a return which will be filed by the taxpayer with no further review. The average Harvard volunteer works less than 12 hours a tax season. That's hardly enough time to build up expertise. Most experienced tax preparers believe that review is essential to prevent mistakes.

As most of the VITA programs are staffed by students and other nonprofessionals, there is a complete turnover of personnel at least every 3 years and usually every 2 years. As a result, there are no experienced supervisors available.

I find it somewhat ironic that if the volunteers have questions or need technical assistance, they are told to call the IRS toll-free number or the VITA toll-free number, which they all suspect is answered by the same office. I am told that most of the volunteers find they receive little assistance when they call the toll-free number.

Although this program was originally conceived to benefit low-income taxpayers, there are no income limits. At random, I asked three of my volunteers to describe the returns that they had prepared. Not a single one involved a taxpayer who earned less than $25,000.

One other alternative for technical assistance would be the private sector, if the private sector could assume the responsibility. In fact, I must concede that perhaps the burden might be borne better by someone other than the government, due to the adversarial nature of the process. But the private sector is neither ready, willing, nor able to assist the IRS or the taxpayers in any large-scale manner.

There are organizations not sponsored by the Government which have undertaken to provide technical and return preparation assistance for low-income taxpayers. I work with two such groups—Community Tax Aid in New York City and in Boston. We are an excellent alternative to Government assistance for low-income taxpayers. But we are not the answer, not even in Boston or New York City. We are overstaffed and overworked. We rely heavily on professional lawyers and accountants at their busiest season of the year to provide volunteer work.

There are similar groups in other parts of the country, but they are plugging the proverbial hole in the dike. They cannot alone provide the necessary assistance for poor, elderly, or rural taxpayers unable to utilize a paid preparer.

Barring a tremendous extension and improvement of these programs, or a massive increase in the number of volunteer efforts, which I don't find likely, the IRS decision to terminate taxpayer service gives many low-income taxpayers no place to turn. I, for one, would not want to be the one who answers the phone when the taxpayer calls with a simple question and have to say, "We will collect your money and we want you to file a return, but we will not help you to interpret the tax law."

The IRS, in many ways, has a thankless task. They must enforce a complex statute which is understood by no one and liked by no one. And I readily concede that enforcement is difficult and costly and that very difficult decisions must be made when budget slashes are made. But it is much more difficult and much more costly when we make it impossible for those who want to comply to be able to do so.

Thank you.

Senator COHEN. Thank you very much, Professor. I have just a couple of questions. My understanding is that you testified before the House Ways and Means Committee about two years ago listing a number of problems with VITA and the TCE programs.

Ms. SCHENK. Right.

Senator COHEN. Did the IRS show any interest in some of the criticisms you made with respect to the voluntary programs they had at that time?

Ms. SCHENK. It's my understanding that they have done one thing to improve the program in that they now administer a test to the VITA volunteers. If you don't pass the test, you can't be a volunteer. I took a look at a copy of the test and while it would weed out, I think, the total and complete incompetent volunteers, it certainly is no guarantee that the returns are being filed in a competent manner.

That's the only change that I know about.

Senator COHEN. Well, as I understand it, the IRS is going to place its emphasis in fiscal 1983 upon the voluntary assistance programs, such as VITA and TCE. At the same time, however, IRS intends to eliminate the reimbursement for expenses for the TCE volunteers.

Is that going to cripple the TCE program?

Ms. SCHENK. I doubt that it will cripple the program, but there certainly are many people who count on the reimbursement, particularly, I think, in areas where the TCE staff volunteer works at some distance from home, particularly in rural areas. We're asking for a big commitment from people to come some distance to volunteer their time to prepare returns. The reimbursement enables them to do that.

Senator COHEN. VITA now serves all taxpayers, regardless of income, is that correct?

Ms. SCHENK. In practice, that's true.

Senator COHEN. Would it make any sense, in view of the limited amount of funds that are available, to impose a restriction on the level of income that people can earn before they're excluded from the program?

Ms. SCHENK. I think so. I think it would be nice to be able to help everyone. But if we have a limited number of funds, I think that we should direct them to those who have no alternative. Middle and high-income taxpayers probably can afford some kind of paid assistance, but it's clear that low-income taxpayers cannot.

Senator COHEN. Professor, thank you very much for your testimony.

Ms. SCHENK. You're welcome. Thank you.

[The prepared statement of Ms. Schenk follows:]

PREPARED STATEMENT OF DEBORAH H. SCHENK

I am Deborah Schenk, a professor at Brooklyn Law School and a visiting professor at Harvard Law School. I am pleased to participate in this important hearing on the effect of the decision by the Internal Revenue Service to reduce taxpayer assistance programs in 1982 and 1983.

Budget considerations mandate that cuts in government services be made. Selecting services to be eliminated is a difficult and painful choice. But in making these decisions we must not opt for cutbacks that have a beneficial effect on the short-term budget, but have a highly detrimental effect on long-term revenues. A cutback which saves dollars today but impairs our ability to raise revenue tomorrow is a dubious proposition. A cutback which threatens our voluntary self-compliance system is a disastrous proposition. Let me explain.

First, let us focus on whether the IRS has a responsibility to provide assistance to the taxpaying public. There are two kinds of assistance—technical return preparation assistance and tax account assistance. There can be no question that the Service has a responsibility to provide the latter. Only the Service is able to supply information about a particular tax account—such as the whereabouts of a refund check or the status of an audit. It is because of this unique responsibility that the Service is concentrating its efforts in 1982 and 1983 on after-the-fact taxpayer assistance.

But does the Service also have an obligation to provide before-the-fact technical assistance? The IRS has no duty in the sense of a statutory or constitutional obligation. There is no requirement that is make such assistance available. Nevertheless the Service probably does have a responsibility to do so in that it is incumbent upon the IRS to collect revenues and return refunds in an efficient and equitable manner. The decision to terminate pre-return technical assistance and to rely solely on taxpayer education and VITA will have a disastrous effect on compliance which directly impinges on the Service's ability to collect revenues.

The Service has two probable justifications for its decision. First budgetary limitations require an allocation of the reduced appropriation. The Service asserts it cannot continue to provide the same level of taxpayer service as in the past. The Service apparently believes that its special obligation to provide tax account assistance leaves no choice but to virtually eliminate return and technical assistance. Second, the Service may point out that most taxpayers using its service programs are low-income taxpayers. The over-whelming majority of low-income taxpayers are entitled to a refund—due either to over-withholding or the earned income credit. In all probability, then, in any given year, revenues will not be diminished if these taxpayers do not file returns. The refunds will simply go unclaimed.

These arguments overlook the effect such a decision has on voluntary compliance and the public perception of the Internal Revenue Service and its function. As we all know voluntary compliance is the linchpin of our system. There are already danger signals and ominous warnings that our self-assessment system is faltering. The increasingly large underground economy, the actions taken by tax protestors, and the audit lottery all threaten our reliance on voluntary compliance. We should not add to this list of problems failure to file returns due to lack of assistance. Although most taxpayers know the law requires them to file a return, many find it impossible to do so. It is an idle platitude to say to taxpayers you must file a return if we know that taxpayers do not have the ability to file a return or the wherewithal to use a paid preparer or access to free assistance. Taxpayers who, in the past, would have turned to the Service for assistance will in probability not file a return. We should be troubled I believe by the prospect of taxpayers who are entitled to refunds or earned income credits being unable to file for them because they cannot understand the return or obtain assistance.

The Service should also be concerned about the long-run effect of taxpayers not filing a return even if there are no deficiencies. First, taxpayers' income levels generally do not remain flat. Many of the taxpayers entitled to refunds this year may owe money in years to come. Second, it is extremely unwise to create the impression that either a return need not be filed or that nothing will happen if it is not filed. If the non-filing taxpayer is due a refund, the Service is unlikely to pursue the matter. Not only does the taxpayer lose his refund, but he believes that filing a return is really not necessary. Most low-income taxpayers do not know they are due a refund; thus, when they fail to file they think they have tricked the Service.

Finally eliminating preparation assistance is a poor public relations decision. It can only serve to heighten the tension between the IRS and the American public. The Service effectively says—you are required to file a return and we know you cannot do it yourself, but we will not do it for you or answer your questions—hardly an attitude likely to promote trust and respect.

Even if a taxpayer—particularly a low-income taxpayer—is able to file his return, it is likely to be inaccurate if he has nowhere to turn for technical assistance. By 1983 the IRS will have phased out all pre-filing taxpayer technical assistance. Thus even if the taxpayer wants to file an accurate return correctly but has questions as to how to do so, there may be no one in the government able to help him. The mistakes will either result in increased audit time or lost revenues.

It is naive to think that taxpayers are not going to need increased assistance to complete their tax returns. Although the IRS is testing simpler forms, they will not be available on a widespread basis for several years. Even when the new system is fully operational, many taxpayers—again mainly low- and middle-income taxpayers—will still be unable to prepare their own returns due to the complexity of the law. Since the prospect of full-scale simplification is nowhere in sight, we can expect that one-half of the tax returns filed (a conservative estimate) will continue to be prepared by someone other than the taxpayer.

The Service's position to cut taxpayer technical assistance may not be costly, if, but only if there are adequate alternative sources of technical assistance. In 1982, the Service continues to provide telephone technical assistance through its toll-free number. While the loss of telephone technical assistance will be greatly felt in 1983 when the Service is scheduled to terminate it completely, it is no substitute for direct preparation or face-to-face assistance. The catalogue of complaints about telephone assistance is well-known and well-documented. Taxpayers who call the IRS are accustomed to endlessly ringing phones or long waits on hold. But the real problems are much more substantial. They are largely traceable to the fact that it is the taxpayer who initiates the call. Thus the taxpayer must be prepared with questions. Many taxpayers cannot even frame the questions—they simply want help. A taxpayer cannot just call the toll-free number and say "Help. I cannot do my return." Even if the taxpayer knows his specific problem, questions such as "Am I married?" or "Do I have dependents?" cannot be answered over the phone. They are too complex. Without asking a number of fact-finding questions, IRS employees manning the phone are likely to give wrong answers (and GAO studies indicate that they often do). Furthermore, an examination of documents such as a divorce decree or a W-2 statement may be necessary in order to correctly answer taxpayer questions.

Telephone assistance is efficient and convenient to answer questions about forms and deadlines and may even be desirable to provide technical advice for rural taxpayers who have no other option. Nevertheless, it is highly inefficient and unworkable as the only source of taxpayer technical assistance.

In 1983, the Service will rely on its Volunteer Income Tax Assistance and Tax Counsel for the Elderly programs to provide technical assistance. Such reliance is totally misplaced. While the hundreds of VITA volunteers are well-intentioned and generous, they are poorly trained, poorly supervised and often poorly-situated. The program at Harvard Law School, apparently the largest VITA program in the country, is typical. There are no prerequisites to being a VITA volunteer. Although all of our volunteers are law students, volunteers in other programs need have no minimum education, no prior tax or language training and no experience. It is to the Service's credit that they are now testing volunteers so that those who do not possess a minimum threshold of knowledge cannot prepare returns. Most VITA volunteers take this test after 36 hours of training by IRS personnel. The quality of the training team varies widely. The VITA volunteers are not trained to answer questions or to provide technical assistance apart from return preparation.

The returns prepared by VITA volunteers are not reviewed. The most inexperienced volunteer can prepare a return which will be filed by the taxpayer with no further review. The average Harvard volunteer works less than 12 hours over the tax season—hardly enough time to build up expertise. Experienced tax preparers, however, believe that review is essential to prevent mistakes, both mathematical and substantive. As many VITA programs are staffed by students there is a complete turnover of personnel at least every three years and usually every two years. As a result there are generally no experienced supervisors available. If the volunteers have technical questions, their only source of assistance is to call the IRS toll-free number or the VITA toll-free number. I'm told by volunteers that the answers received (if and when the phone is answered) are of no help. If the volunteer cannot obtain assistance, the taxpayer is turned away.

Although VITA was originally conceived as a program to benefit low income taxpayers, there are no income limits at most storefronts. For example, at the Harvard locations, the volunteers will do almost anyone's return as long as they feel qualified to handle it—regardless of the amount of income. To the extent taxpayers who can afford paid assistance utilize VITA, the Service's resources and those of the private volunteers are misused. Furthermore VITA preparation centers are not always located in areas convenient to and accessible for low-income taxpayers. Generally the Service provides no assistance in locating desirable sites. It also does not provide publicity which might attract taxpayers needing assistance to the sites. Finally, the ratio of returns completed per volunteer hour is high considering the types of returns filed. At Harvard it's about two returns per volunteer hour (not including administrative hours). While this may be acceptable in a purely private sector preparation program, it is inefficient in a government-funded program.

The Service apparently has no idea how effective the VITA program is. There is inadequate monitoring of the VITA volunteers or the returns they prepare. The volunteers are not required to evaluate their efforts or to submit statistical reports to the Service. The IRS has no evidence about the quality of service or the error rate. The IRS has no evidence about the extent to which low-income taxpayers are being helped. The IRS has no evidence as to whether VITA volunteers are able to and are providing adequate and accurate technical assistance.

This would not be so disturbing were it not for the fact that in 1983 the volunteer programs will be the only IRS taxpayer technical assistance programs. VITA is a well-conceived, if not well-thought out, program which does at least recognize that citizens need assistance in meeting obligations imposed by the government. Volunteers are to be commended for their time, effort, and selflessness. The program, as now operated, is clearly an important part of a taxpayer assistance program. But it needs a drastic overhaul if it is to become the only technical assistance resource.

We might also accept the demise of government-funded taxpayer assistance programs if the private sector could assume the responsibility. In fact the burden would probably be better borne by someone other than the government due to the adversary nature of the IRS. While the private sector may be prepared to handle preparation and technical assistance for those who can pay for it, there is no doubt that assistance for all those that cannot pay for it is unavailable.

There are organizations—not sponsored by the government—which have undertaken to provide technical and return preparation assistance for low-income taxpayers. I work with two such groups—Community Tax Aid of New York City and Boston. We are an excellent alternative to government assistance for low-income taxpayers. We operate in storefronts or schools accessible to low-income taxpayers where we prepare returns and provide tax advice. We have a large number of well-trained, effective volunteers who are managed by more experienced volunteers with additional specialized training. Each return is reviewed by a manager to ensure accuracy and to provide quality control. But we are not the answer—not even in Boston and New York City. We are understaffed and overworked. We rely heavily on professional lawyers and accountants at their busiest season of the year. There are similar groups in other parts of the country—but they are plugging the proverbial hole in the dike. They cannot alone provide the necessary assistance for poor, elderly or rural taxpayers unable to utilize a paid preparer.

Such groups should be encouraged to flourish and spread. In time perhaps we can rely on the private sector—commercial and volunteer—to provide the assistance needed to file increasingly complex returns. But until such time as the private sector is able and willing to do so, the Service cannot relinquish its responsibility.

Therefore, barring an extension and improvement of the VITA and TCE programs, or a massive increase in the number of volunteer efforts, the IRS decision to terminate taxpayer service gives many low-income taxpayers no place to turn. The IRS in many ways has a thankless task. It must enforce a complex statute, fully understood by no one and liked by no one. Enforcement is difficult and costly. It is made more difficult and more costly when we make it impossible for those who want to comply to do so.

Senator COHEN. Our next witness is William Anderson, the Director of the General Government Division of the General Accounting Office.

Mr. Anderson, would you introduce the people who have accompanied you today?

TESTIMONY OF WILLIAM J. ANDERSON, DIRECTOR, GENERAL GOVERNMENT DIVISION, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY JOE JOZEFCZYK, GENERAL ACCOUNTING OFFICE, WASHINGTON, AND DON SCHMIDT, DETROIT REGIONAL OFFICE

Mr. ANDERSON. To my right is Joe Jozefczyk of our Washington headquarters Internal Revenue Service audit staff. To my left is Don Schmidt of our Detroit regional office. Don has been involved in looking at IRS's taxpayer assistance activities for some time and, in fact, led work we had done back in 1978, looking at the telephone answering program.

With your permission, sir, I would like to have my full statement entered into the record and then read from some notes that I have.

Senator COHEN. It will be entered, Mr. Anderson.

Mr. ANDERSON. Thank you. My comments today are based on work we have done in the past, dating back as far as 1976, which was the first look that we took at the telephone answering program. It gives us a basis upon which to compare what is going on today.

The past decade has seen a steady growth in the scope of IRS's taxpayer assistance activities. The rationale for this growth in these activities was well stated by IRS in a 1970 study, which resulted in upgrading taxpayer assistance. I'd like to quote this to you. It's probably the best statement on the importance of taxpayer assistance from IRS:[1]

> Willingness to comply, however, is only one aspect of compliance. A taxpayer must also have the ability to comply. It is obvious that if a given taxpayer is to be able to comply, he must understand what the law requires of him. He must have appropriate forms and instructions and he must be able to obtain assistance in solving his more complex tax problems. To the extent that the Service does an effective job in informing and educating the taxpayer in his tax-paying responsibilities and rights, and provides him with appropriate forms, instructions and technical assistance, the taxpayer's ability to comply will be enhanced. Clearly, an effective taxpayer service program can contribute to high levels of compliance.

Senator COHEN. What is the date of that?

Mr. ANDERSON. 1970, sir. Despite these strong arguments, IRS now proposes to cut back drastically the resources devoted to taxpayer assistance. Thus, where it was authorized 5,600 staff-years in 1980, 4,818 in 1982, IRS proposes to cut the resources for the program to about 3,100 staff-years in 1983. As pointed out earlier, that represents a decrease of about 2,500 staff-years or 45 percent from the 1980 level of effort.

Something obviously has to give in adjusting to this much lower level of effort. The impact can be expressed in a number of ways. Let's consider first the things that IRS will no longer be doing to help taxpayers. They will no longer directly prepare tax returns. In 1979, IRS did this for over 600,000 taxpayers; in 1981, for about 175,000. IRS will no longer provide return review assistance. In 1981, they did this for 344,000 people.

IRS will have fewer walk-in offices for taxpayers to get that assistance which is still available, from 829 in 1981 to 1982's 615, a 26 percent reduction.

Finally, IRS's telephone service beginning in 1983 will no longer answer tax law questions. I understand that IRS estimates that this year they'll be getting about 20 million such calls.

Another way of expressing the impact is to consider the effect on the total number of taxpayers assisted. In 1980, this was 43 million. I'll skip the intervening years and go back to the figures cited earlier—about 17.9 million in 1983.

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[1] See p. 119.

In summary, IRS will be doing considerably less in the way of assisting taxpayers as a result of the proposed budget cuts in the taxpayer assistance program.

Let me turn now to another subject of interest to the committee—the accuracy, timeliness, and availability of telephone assistance. We first tested the adequacy of IRS's telephone assistance to taxpayers in 1978. That test, conducted over a 3-day period during the tax filing season, involved making 873 telephone calls at randomly selected times to 20 of the then-existing 70 IRS answering sites. We developed and asked 14 tax-related questions for use in making the sample telephone calls.

We are conducting a similar test during the 1982 period as part of our current review. For the current test, covering the period, January 25 through March 31, we developed 20 tax-related questions. Ten of these questions were also used in our 1978 test, while the remaining 10 are newly developed. Of the new questions, seven relate to tax changes contained in the Economic Recovery Tax Act of 1981. IRS emphasized these changes when it trained tax assisters for this filing period.

In our current test, we are making calls to 49 of IRS's 52 answering sites.

Let me give you some of the preliminary results from our sample. It is still underway. But I think the results to date are of concern and interest.

Overall, IRS was accurate 85 percent of the time in responding to taxpayers' questions. In 1978, we found that IRS's responses were accurate 87 percent of the time. With respect to the 10 questions which we used during both our 1982 and 1978 tests, IRS's accuracy rate remained steady at 87 percent. For the seven new questions related to the Economic Recovery Tax Act, IRS responses were accurate 79 percent of the time. And, for the three new questions we developed which were not related to the Economic Recovery Tax Act, IRS responses were accurate 94 percent of the time.

With respect to the timeliness of telephone assistance, we found that there had been a slight decline in service levels. For example, we estimate that each time a taxpayer calls IRS in 1982, there is a 45 percent probability of being placed on hold before reaching an assister. In 1978, we found that 42 percent of callers were placed on hold. It takes a taxpayer an average of 45 seconds to reach an IRS assister in 1982. IRS records indicate that during fiscal years 1979 through 1981, the majority of taxpayers reached an assister within 20 to 40 seconds.

Concerning the availability of taxpayer assistance, we estimate that taxpayers can expect to reach an IRS assister on their first call only 61 percent of the time in 1982, compared to 78 percent of the time in 1978. Taxpayers who are willing to make multiple calls to IRS have an 86 percent chance of reaching an assister within a total of five calls. In 1978, taxpayers could expect to reach an assister 96 percent of the time with five calls.

IRS statistics do not confirm a decline in response accuracy. According to IRS, its accuracy rate during 1979 through 1981 held steady at 97 percent. The difference between our statistics on accuracy and IRS's statistics may be explained in part that our test relates only to specific tax questions. IRS's statistics include calls made by taxpayers for such things as to obtain forms and publications.

In sum, the overall adequacy of IRS's telephone assistance program has, in our view, declined somewhat in recent years. And the significance of this decline is heightened by a reduction in the availability of alternative forms of walk-in service.

The potential effects of IRS's decision to reduce taxpayer service are really unknown at this point. We recognize that the administration wants to cut the Federal budget deficit through decreased Federal spending. One means for IRS to do this is to decrease its taxpayer service budget. In lieu of services traditionally offered by the Government, IRS believes the taxpayers will turn to commercial preparers, friends or relatives, or volunteers for assistance. Further, IRS believes that taxpayers can find answers to most of their tax law and return preparation questions in the Service's various forms, instructions, and publications.

These assumptions may prove accurate, but it is also possible that some taxpayers may not file returns or may file returns containing inadvertent errors or errors resulting from personally favorable tax law interpretations, concerns that were voiced by Mr. Kurtz and Mr. Alexander.

IRS, therefore, could conceivably face a situation where return perfection and collection costs exceed comparable pre-filing assistance.

There are some facts that are relevant in considering the implications of the cutback in this program. About one-third of the IRS-assisted returns, when they were offering that service, were for taxpayers over 65 and/or blind. This is from a 1976 study, by the way. I have no reason to believe that IRS's proportions still don't hold true.

Seventy-five percent of IRS-assisted 1040's were for taxpayers with under $10,000 adjusted gross income. Ninety-two percent of the taxpayers getting assistance in preparing the 1040A's had under $10,000 adjusted gross income.

The inescapable conclusion is that lower income and elderly taxpayers were the prime recipients of IRS's direct preparation assistance.

We also need to keep in mind form complexity. In a 1978 report, we concluded that the 1040 packages were written beyond the level of many taxpayers, as high as 20 to 25 percent, generally, at about a 10th or 12th grade reading level. I heard the subject come up earlier. The only study that we're aware of that tries to speak to the literacy of the national population is one that the University of Texas did a few years ago in the early 1970's. And they estimated that about 20 to 25 percent of the American population read at the 8th grade level or lower, 20 to 25 percent. I think that IRS is hopeful of getting the reading level comprehension of its rewrite of the forms now to about the 9th grade or so.

We're going to have a large part of the populace that are really going to have difficulty even if IRS is fully successful in its current effort.

My closing remarks now. Although cutbacks in taxpayer assistance may be feasible, there is also a possibility that the cutbacks will prove self-defeating. Without better data than is presently available, we think it will be difficult for anyone to make an informed decision on this issue. Accordingly, we are taking steps to develop some of the information needed in this ongoing work.

Besides evaluating the accuracy, timeliness, and availability of IRS assistance, we also plan as part of our current review to obtain extensive information on two population groups. First, we plan to identify the characteristics of taxpayers who use IRS's various assistance programs and determine whether IRS is meeting their assistance needs. Second, we will obtain information on taxpayers in general, their needs and how these needs are met.

By comparing these two groups, we will be able to determine whether and how IRS is serving the needs of specific taxpayer groups in the population. Once this has been done, it should be possible to better predict the effects of the cutbacks and to identify changes which would improve the taxpayer assistance program by making it more responsive to taxpayers most in need of assistance.

I'm sorry my summary took so long, Mr. Chairman, but we're prepared to answer any questions that you may have now.

Senator COHEN. Thank you very much, Mr. Anderson. It didn't take long at all.

Your last statement is the one that is most interesting to me; namely, that the Internal Revenue Service and/or Treasury and/or OMB have acted without sufficient information or data as to who would be most severely impacted—what income levels, what age group—by the proposed reductions in taxpayer assistance programs.

In fact, the 1974 IRS study that you cite on page 14 of your testimony indicates that the Service knew at the time that the taxpayers who were most dependent on IRS for free taxpayer assistance were low-income and elderly people.

Mr. ANDERSON. Yes, sir.

Senator COHEN. Second, according to an internal IRS document that was furnished to us by the IRS, the present Commissioner has said that a possible effect of eliminating telephone assistance for taxpayers with tax law questions would be a significant decline in voluntary compliance.[1]

So, on the one hand, we know what group is generally affected and, on the other hand, we have a reasonable expectation that the elimination of this service is going to result in a decline in voluntary compliance.

How much more information does IRS need? What other study do you need to show who it's going to impact upon? We already have that information, don't we?

Mr. ANDERSON. Yes, we do, sir. In my own mind, there's an overwhelming amount of evidence right now to argue that the service should be continued. I thought that some good arguments were made by the two former Commissioners.

Senator COHEN. Why do we have to have another survey? If we already know it, why are we deluding ourselves by saying we know who it's going to impact upon. We know that the people who are out in business earning reasonably decent incomes are turning to their own accountants, lawyers, or tax advisers in order to minimize their share of taxes for that coming year.

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[1] See p. 233.

Mr. **Anderson**. There's one uncertainty, and that would involve the difference in the universe of people who use walk-in service and, say, direct return preparation and return review assistance, and those who are calling in.

The universe that uses the phone really hasn't been identified. I guess I personally have some doubts as to whether that universe is the same; that is, the low income and the elderly. I don't even know if they'd proceed to the point of picking up the phone and trying. I could be wrong. But that would really make the case totally if we found out that that universe was also comparable to the other.

Senator **Cohen**. Let me go back to the accuracy of the information provided by IRS. You indicated from your study that roughly 85 percent of the time the IRS information is accurate, as compared to 97 percent claimed by the Internal Revenue Service itself.

The question that first occurs to me is whether or not you are coming down on the positive side, the optimistic side, in terms of the 85-percent accuracy level. I assume the questions that you and your employees in 20 offices around the country asked of the IRS were direct, succinct, and articulate, at least in the framing of the question, in order to get the answer. In actuality, however, the IRS might be confronted with people who are not articulate and not succinct, and don't know what they're asking. As the two prior Commissioners have indicated, you can't even ask a question unless you almost know what the answer is.

But many times, people will fumble through this thicket called the Internal Revenue Service Code to look for an answer.

Now that's in direct contradiction, I think, to the way in which you probably ask your questions.

So, have you come down on the side of the IRS? Is the 85-percent accuracy level overly optimistic?

Mr. **Anderson**. The point is very well taken, sir. Absolutely correct, yes. These questions were well articulated and very precise, yes.

Senator **Cohen**. Well, assuming it's lower than 85 percent, and I'll assume that you're correct, or I'll even assume that 97 percent is correct—I don't think that that is accurate, but assuming for the moment that it is—does it make sense to eliminate the telephone service or would it make more sense, in the long run, to put more people on the phones, to have more careful monitoring of the conversations, and to try and perhaps better train some of the individuals to give better advice?

In terms of the long-term implications for the Federal Treasury, does it make more sense for the IRS to improve the current service or to eliminate it and say, go out and shop around at your local commercial service?

Mr. **Anderson**. I would say that our own viewpoint is very clear—that the most effective thing that the Government could do is improve the quality of the service, maintain it, improve its quality through training, whatever other steps are necessary.

Senator **Cohen**. I have just one final question. In the 1982 IRS reorganization plans, the Taxpayer Service Division is renamed the

Office of Tax Information and is placed under the Assistant Commissioner for Examination.

The decision was made back in 1971 to separate out taxpayer service from collection, on the theory that you don't want the same division doing both the assessing and the assisting. Do you think that the 1982 reorganization plan contradicts the basis for the 1971 separation?

Mr. ANDERSON. I would say that, yes, the visibility and independence that led to the position of taxpayer assistance and IRS's organization previously, that same logic would hold true today. You may want to explore it, sir. I do understand that IRS is having second thoughts about the desirability of the proposed change you just spoke of.

Senator COHEN. Again, one final point. Is it your assessment that this step to reduce IRS taxpayer assistance programs is, No. 1, shortsighted, and, No. 2, is going to result in the long term in a loss of revenues rather than an increase in revenues? If there is an increase in revenues because of more examination and collection officials, will that ultimately produce an adversarial relationship, which would be harmful to the Federal Treasury and to the spirit of the country?

That's a loaded question, but those are the three major points. No. 1, is it going to save us money in the short run? I think maybe the answer is "Yes."

Mr. ANDERSON. Absolutely.

Senator COHEN. Is it going to save us money in the long run? I'm asking you the question. What do you feel?

Mr. ANDERSON. There are no data available that could really speak to that conclusively. It is a fact that IRS's studies in the past have shown that the returns prepared by individuals, without assistance, contained higher numbers of errors than those prepared by a commercial preparer or those prepared with IRS assistance.

More errors translates into more expense on the part of IRS in correcting the returns when the return is identified as flawed. We had the situation of nonfiling, where people simply give up and do not file. The point was made by the previous person at the table here that, yes, but a lot of these people are due refunds. But it's also true that there are a lot of nonfilers out there that owe money as well.

So compliance will be influenced. There will be costs. Whether it will be enough to offset the $55 million that IRS expects to save in getting rid of these 1,900 people is speculative. But I think the more important thing is that IRS puts the forms out, requires people to self-assess the amount that they owe the Government, self-assessment.

We've put an awful lot of effort, time, and cost into developing the forms and getting them out to the taxpayer for the purpose of communicating to the taxpayer—here are instructions and here are requirements.

This just seems a necessary adjunct to that, when there's a followup question in relation to all this other effort we've gone through, so that taxpayers can, indeed, self-assess themselves without being assessed 44 percent of the time by a third party.

Senator **Cohen**. Mr. Anderson, thank you very much. You've been most helpful.

Mr. **Anderson**. Thank you, sir. I appreciate it.

[The prepared statement of Mr. Anderson follows:]

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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STATEMENT OF

WILLIAM J. ANDERSON, DIRECTOR

GENERAL GOVERNMENT DIVISION

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT OF

GOVERNMENT MANAGEMENT

COMMITTEE ON GOVERNMENTAL AFFAIRS

UNITED STATES SENATE

ON

THE STATUS OF IRS' TAXPAYER SERVICE PROGRAM

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to assist the Subcommittee in its inquiry into the impact of budget cuts on the Internal Revenue Service's (IRS') Taxpayer Service Program. Our testimony is based on past work we have done in the taxpayer service area and on the preliminary results of our current review of IRS' assistance to taxpayers over the telephone, at walk-in offices, and through correspondence.

Because the Internal Revenue Code has evolved into an extremely complicated array of deductions, credits, and exclusions, many taxpayers seek IRS' assistance in meeting their tax obligations and in resolving disputes. For over a decade, IRS has had a formal program for assisting taxpayers and, until recently, has sought to expand and/or improve the program. Recently, however, due to escalating Federal budget deficits and the Administration's efforts to reduce Federal spending, IRS decided to reduce its taxpayer service activities. Further reductions are contemplated for future years. As evidenced by this hearing, IRS's change in direction in this regard concerns the Congress.

Congressional concerns about funding levels for IRS' Taxpayer Service Program are understandable. Current IRS plans call for substantial reductions in taxpayer service activities in fiscal year 1983. These reductions may prove desirable, appropriate, and cost effective. Taxpayers may well be able to find other means through which to satisfy their needs for assistance. On the other hand, the reductions will apparently be made without the benefit of adequate data to identify who will be affected and what effects the reductions will have on voluntary compliance and postfiling return perfection and collection costs.

HOW IRS' TAXPAYER SERVICE PROGRAM DEVELOPED

IRS began providing assistance to taxpayers informally in the early 1940's through such practices as providing basic tax information over public address systems in Federal buildings. An expanded program was established in the early 1950's as part of IRS' audit and collection responsibilities. The program, which was offered primarily during the tax filing season, consisted of IRS auditors and clerks providing information to taxpayers so that they could prepare their own tax returns.

IRS' taxpayer service program continued to expand during the 1960's and 1970's, and as it did, the program was gradually separated from IRS' audit and collection activities and began to develop its own organizational identity. In 1963, taxpayer service was established as a branch of the Collection Division in IRS' national office. In 1971, IRS reorganized the taxpayer service function and, in so doing, upgraded it organizationally to reflect an increased emphasis on providing effective assistance to taxpayers. Specifically, IRS established a separate Taxpayer Service Division in its national office under an Assistant Commissioner for Accounts, Collection, and Taxpayer Service. However, in each district office, taxpayer service remained part of IRS' collection activity.

Even so, the reoganization brought with it full-time tax assistors and a year-round taxpayer service program in district offices. IRS also began to use seasonal employees during the tax-filing period to reduce program reliance on technical and semitechnical employees detailed from other activities. The seasonal employees received specialized training to help them assist taxpayers in preparing their returns.

In 1977 and 1978, however, in response to complaints from taxpayers and taxpayer groups, various congressional subcommittees and committees conducted evaluations of the effectiveness of IRS' Taxpayer Service Program. In 1978, the House Government Operations Committee concluded that IRS had substantially improved its Taxpayer Service Program, but the committee said that it was not satisfied that IRS was providing the quality of assistance to which taxpayers are entitled. The committee recommended that IRS continue to upgrade its taxpayer assistance activities so taxpayers could meet their responsibilities under the Nation's self-assessment system. Concurrently, various members of the Congress contemplated establishing a legal requirement that IRS create and maintain in its national office a separate Assistant Commissioner position solely for taxpayer service.

In July 1978, however, as part of an overall reorganization, IRS established a separate Assistant Commissioner position for taxpayer service without the contemplated legislation being enacted. At that time, IRS officials stated that the change was needed in order to separate taxpayer service from collection, which is an enforcement function, and to provide for the first time a completely separate organizational and executive identity to taxpayer service. IRS further stated that the reorganization afforded taxpayer service a voice equal to that of enforcement activities in establishing national policy. By July 1978, IRS also had created separate taxpayer service divisions in 46 of its 58 districts. Separate divisions were created in the remaining 12 smaller districts 3 months later.

From July 1978 until March 1982, IRS' Taxpayer Service Program was afforded organizational visibility as a separate entity outside IRS' enforcement function. Now, a recently announced IRS reorganization has reduced the visibility and organizational identity of this activity by incorporating taxpayer service into IRS' examination function.

BUDGET CONSTRAINTS HAVE FORCED IRS TO REEVALUATE ITS COMMITMENT TO TAXPAYER SERVICE

IRS' decision to deemphasize taxpayer service activities has been prompted by the budget cutbacks which affect the entire Federal Government. In recent years, as a result of the generally tight Federal budget situation, the trend toward increasing taxpayer service staff year budgets has not only stopped but has been reversed.

IRS' Taxpayer Service Program budget, which provides for taxpayer assistance, tax privacy enforcement, tax forms distribution, document matching, and the problem resolution program has been declining since fiscal year 1980. In 1980, the Congress authorized 5,591 staff years for all IRS taxpayer service program activities compared to 4,818 staff years for fiscal year 1982, a decrease of 14 percent. The taxpayer assistance portion of the budget, which represents the bulk of the total program budget and includes walk-in, telephone, and correspondence assistance and taxpayer information and education activities, declined from 4,953 staff years in 1980 to 4,080 in 1982, a decrease of 18 percent.

In formulating its fiscal year 1982 budget request, IRS decided to eliminate direct return preparation and return review assistance at walk-in offices. Direct return preparation assistance involved having IRS personnel actually fill out parts or all of a return for an individual taxpayer. Return review assistance consisted of having IRS personnel check individual taxpayers' returns for mathematical accuracy and completeness before the return was filed. Exceptions were made for physically handicapped taxpayers and for taxpayers who demonstrated an inability to use self-help return preparation assistance. In addition, IRS also significantly reduced the number of walk-in offices in operation. In fiscal year 1982, IRS had 615 walk-in offices in operation compared to the 829 offices it operated in fiscal year 1981, a 26 percent reduction.

IRS also projects a decrease in the number of taxpayer contacts it will handle in fiscal year 1982. In fiscal year 1981, IRS handled 44.8 million contacts while a total of 41.4 million are expected to be handled during fiscal year 1982, a decrease of about 7.6 percent.

While this reduced level of assistance to taxpayers is significant, IRS' fiscal year 1983 budget proposes even more drastic reductions in the levels of assistance to be provided to taxpayers. IRS' proposed fiscal year 1983 budget for the taxpayer assistance portion of its program calls for 2,394 staff years, a decrease of 1,686 staff years, or 41 percent, from the 1982 budget. And, with 2,394 staff years, IRS expects to be able to handle only 17.9 million taxpayer contacts, which represents a 57 percent decrease from the estimated 41.4 million contacts it expects to handle in fiscal year 1982.

In addition to reducing the program in fiscal year 1983, IRS is also proposing to change its focus. During testimony before the House Subcommittee on Commerce, Consumer, and Monetary Affairs on March 17, 1982, the Commissioner said that IRS' toll-free telephone assistance will be limited to responding to specific questions taxpayers have about their accounts; IRS will no longer respond over the telephone to taxpayer questions pertaining to tax law interpretation or return preparation. On the other hand, the Commissioner indicated that IRS does not plan any further reductions in walk-in service other than to deemphasize the handling of specific tax law and return preparation questions.

Such a refocusing of IRS' Taxpayer Service Program may have some effects on voluntary compliance. Voluntary compliance involves both the willingness and the ability of taxpayers to fulfill their tax obligations. In an October 29, 1981, memorandum to the Deputy Secretary of the Treasury, the Commissioner discussed the probable effects of eliminating telephone assistance for taxpayers with tax law questions. Among other things, the Commissioner noted the following.

--Over 27 million taxpayers will have to look elsewhere for tax law assistance.

--IRS can expect a large increase in demand for correspondence assistance on tax law questions.

--Absent IRS answers to tax law questions, large numbers of taxpayers can be expected to interpret the law in a way favorable to themselves, with little likelihood of detection.

--A significant decline in voluntary compliance and a concurrent decline in revenues may result.

While the impact of eliminating telephone assistance for tax questions is unknown, the probable consequences suggested by the Commissioner merit consideration. That taxpayers want answers to questions is evidenced by the fact that, in 1982, IRS expected to receive a total of 33.9 million calls of which an estimated 27 million will involve tax law questions. Given that level of demand, the accuracy, timeliness, and availability of IRS' assistance also merits consideration.

THE ACCURACY, TIMELINESS, AND AVAILABILITY OF TELEPHONE ASSISTANCE HAS DECLINED

Historically, IRS has considered telephone assistance to be the most efficient method of helping taxpayers with their tax questions and has encouraged taxpayers to use the telephone when seeking assistance. The toll-free telephone system is operated from 52 answering locations and includes all of the United States and Puerto Rico. IRS estimates that approximately 82 percent of its fiscal year 1982 taxpayer assistance workload will be handled via telephone.

In recent years, IRS has attempted to handle an increasing demand for telephone assistance with fewer personnel. For example, between fiscal years 1979 and 1981, telephone activity increased from 32.6 million to 36 million calls, or 10 percent, while direct staff hours applied to telephone assistance decreased from 2.0 million to 1.8 million, or 10 percent. IRS attributes its increase in productivity to improved telephone equipment and consolidations of telephone sites.

We first tested the adequacy of IRS' telephone assistance to taxpayers in 1978. That test, conducted over a 3-day period during the tax filing season, involved making 873 telephone calls at randomly selected times to 20 of the then-existing 70 IRS answering sites. We developed and asked 14 tax-related questions for use in making the sample telephone calls.

We are conducting a similar test during the 1982 tax filing period as part of our current review. For the current test, covering the period January 25 through March 31, 1982, we developed 20 tax-related questions. Ten of these questions were also used in our 1978 test while the remaining 10 are newly developed questions. Of the new questions, 7 relate to tax changes contained in the Economic Recovery Tax Act of 1981. IRS emphasized these changes when it trained tax assistors for the 1982 filing period. In our current test, we are making calls to 49 of IRS' 52 answering sites.

As of March 10, 1982, we had made 746, or 68 percent, of our planned 1,100 telephone calls. Although our sample is not complete, the initial results provide insights into the current status of the program.

Concerning the accuracy of IRS' responses, we found that:

--Overall, IRS was accurate 85 percent of the time in responding to taxpayers' questions. In 1978, we found that IRS responses were accurate 87 percent of the time.

--With respect to the 10 questions which we used during both our 1982 and 1978 tests, IRS' accuracy rate remained steady at 87 percent.

--For the seven new questions related to the Economic Recovery Tax Act of 1981, IRS responses were accurate 79 percent of the time.

--And, for the three new questions we developed which were not related to the Economic Recovery Tax Act, the IRS responses were accurate 94 percent of the time.

With respect to the timeliness of telephone assistance, we found that there had been a slight decline in service levels. For example, we estimate that:

--Each time a taxpayer calls IRS in 1982, there is a 45 percent probability of being placed on hold before reaching an assistor. In 1978, we found that 42 percent of callers were placed on hold.

--It takes a taxpayer an average of 45 seconds to reach an IRS assistor in 1982. IRS records indicate that, during fiscal years 1979 through 1981, the majority of taxpayers reached an IRS assistor within 20 to 40 seconds.

Concerning the availability of telephone assistance, we estimate that:

--Taxpayers can expect to reach an IRS assistor on their first call only 61 percent of the time in 1982 compared to 78 percent of the time in 1978.

--Taxpayers who are willing to make multiple calls to IRS have an 86 percent chance of reaching an assistor within a total of five calls. In 1978, taxpayers could expect to reach an assistor 96 percent of the time within five calls.

While IRS has encouraged taxpayers to use the telephone when seeking assistance, our preliminary review results indicate that the overall adequacy of telephone assistance has declined. Taken together, the decline in accuracy, timeliness, and availability means that for each 100 telephone calls made to IRS, only 72 result in contact with an IRS assistor who correctly answers a question. The remaining 28 calls either do not get answered, get cut off, or result in assistors providing erroneous answers.

IRS' statistics also confirm a decline in its ability to meet the continuing demand for telephone assistance. Whereas in 1979, IRS estimated that 81 percent of the taxpayers who sought assistance actually reached an assistor, that percentage declined to an estimated 70 percent in 1981. Thus, IRS also has found that taxpayers are finding it increasingly difficult to get through to an IRS assistor.

On the other hand, IRS statistics do not confirm a decline in response accuracy. According to IRS, its accuracy rate during 1979 through 1981 held steady at 97 percent. The differences between our statistics on accuracy and IRS' statistics may be explained in part by the fact that our test relates only to specific tax questions. IRS' statistics include calls made by taxpayers to obtain forms and publications.

In sum, the overall adequacy of IRS' telephone assistance program has,in our view, declined somewhat in recent years. And, the significance of this decline is heightened by a reduction in the availability of an alternative form of assistance--walk-in service.

THE ABILITY OF IRS WALK-IN ASSISTANCE HAS DECLINED

During much of the past decade, IRS walk-in offices provided assistance such as answering taxpayers' tax law questions, helping taxpayers prepare their own tax returns, (self-help return preparation), preparing tax returns for taxpayers (direct return preparation), reviewing returns prepared by taxpayers (return review), and clarifying correspondence sent by IRS to taxpayers.

In fiscal year 1979, however, IRS began discouraging direct return preparation by its personnel. IRS records show that, as a result, the number of returns prepared by IRS personnel declined from 608,000 in 1979 to 175,000 in 1981, a decrease of 71 percent.

As a substitute for direct return preparation, IRS encouraged taxpayers to use self-help and/or return review assistance. From 1979 to 1981, the number of returns IRS personnel helped taxpayers prepare increased by 22 percent from 1.7 million to 2.1 million and the number of taxpayer-prepared returns reviewed by IRS personnel increased 26 percent from 272,000 to 344,000.

Despite the continuing high demand for assistance at walk-in offices, however, IRS considered discontinuing all forms of return preparation assistance at walk-in offices for the 1982 filing period. That possibility evoked criticism from various members of the Congress and, on December 21, 1981, IRS headquarters instructed district offices to continue self-help assistance. Still, IRS did eliminate direct return preparation and return review assistance. Exceptions were made for physically handicapped taxpayers and for taxpayers who demonstrate an inability to use the self-help concept.

To its credit, IRS has sought to make the most effective use of its declining taxpayer assistance resources by adjusting the number of walk-in offices maintained and the types of assistance offered. By so doing, IRS actually was able to handle more taxpayer contacts at walk-in offices in 1981--8.7

million--than it did in 1979--8.3 million. On the other hand, what these statistics do not show, and what IRS does not know, is how many more taxpayers would have visited walk-in offices had the number of offices and the types of assistance provided not been reduced. Neither does IRS know what these taxpayers did nor where they went to obtain needed assistance.

POTENTIAL EFFECTS OF IRS' DECISION TO REDUCE TAXPAYER SERVICE ARE UNKNOWN

We recognize that the Administration wants to cut the Federal budget deficit through decreased Federal spending. One means for IRS to do so is to decrease its taxpayer service budget. In lieu of services traditionally offered by the Government, IRS believes that taxpayers will turn to commercial preparers, friends or relatives, or volunteers for assistance. Further, IRS believes that taxpayers can find answers to most of their tax law and return preparation questions in the Service's various forms, instructions, and publications. These assumptions may prove accurate. But it is also possible that some taxpayers may not file returns or may file returns containing inadvertent errors or errors resulting from personally favorable tax law interpretations. IRS, therefore, could conceivably face a situation where return perfection and collection costs exceed comparable prefiling assistance costs.

Various studies conducted in past years lend credence to the latter possibility. IRS decided to reduce the number of walk-in offices and to eliminate direct return preparation and return review assistance in fiscal year 1982. Yet an IRS study of the return preparation and review program, initiated in 1974, found that, in comparison to all returns filed, tax returns prepared or reviewed by IRS had

--fewer math errors,

--fewer unallowable items,

--fewer defects requiring service center resolution, and

--less likelihood of being selected for audit and to change as a result of an audit.

The study also found that the taxpayers using IRS' return preparation and review assistance most often were the elderly and/or those with low incomes. The study concluded that without IRS' assistance, many of these taxpayers would not or could not comply with the law.

For fiscal year 1983, IRS has also decided to stop answering tax law questions over the telephone. IRS believes that taxpayers can get answers to a majority of their tax questions through a review of the Service's many publications. Yet a 1977 study by the Roper Organization, Inc., found that taxpayers have serious problems in understanding IRS' forms and instructions.

The opinion polling firm interviewed a nationwide cross section of adults about their understanding of the Federal income tax system and their attitude toward it. Of the 1,656 adults interviewed who filed a tax return, 54 percent said they went to a professional preparer. Of these, about half said they did so because IRS' forms and instructions were too difficult to understand.

Further, in a July 5, 1978, report entitled "Further Simplification of Income Tax Forms and Instructions is Needed and Possible," we concluded that form 1040 packages were written at a reading level beyond that of many taxpayers. We also noted that educational data on the elderly and on disadvantaged minorities indicates that they may have more severe problems in reading and understanding the 1040 instructions than taxpayers in general.

Since we issued our reportin July 1978, IRS has initiated actions to make forms and instructions easier to read and understand. This year, for example, IRS is testing a simplified version of the form 1040A and accompanying instructions. These actions could facilitate a transition from IRS-provided telephone assistance to greater reliance on forms, instructions, and publications. Nevertheless,while IRS has done much to make its forms, instructions, and publications easier to read and understand, much remains to be done.

Although cutbacks in taxpayer assistance may be feasible, there is also a possibility that the cutbacks will prove self-defeating. Without better data than is presently available, we think it will be difficult for anyone to make an informed decision on this issue. Accordingly, we are taking steps to develop some of the information needed.

Besides evaluating the accuracy, timeliness, and availability of IRS assistance, we also plan, as part of our current review, to obtain extensive information on two population groups.

First, we plan to identify the characteristics of taxpayers who use IRS' various assistance programs, and determine whether IRS is meeting their assistance needs. Second, we will obtain information on taxpayers in general, their needs, and how those needs are met. By comparing these two groups, we will be able to determine whether and how IRS is serving the needs of specific taxpayer subgroups in the population. Once this has been done, it should be possible to better predict the effects of the cutbacks and to identify changes which would improve the taxpayer assistance program by making it more responsive to taxpayers most in need of assistance.

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Mr. Chairman, this concludes my prepared statement. We would be pleased to answer any questions which you may have.

Senator COHEN. Our final witness this morning is the current Commissioner of the Internal Revenue Service, Roscoe Egger.

Commissioner Egger, I appreciate your willingness to come before the subcommittee to answer our questions on taxpayer assistance. If you could summarize your statement, it will be entered in full in the record.

Let me say by way of preface that the purpose of the hearing is not to come down hard on you or the Service. I, frankly, think that I understand the constraints that you are operating under. I also believe that the decisionmaking on this particular issue was made at a higher level and that you, because you are in the position that you are, have to take whatever moneys you have and do the best you can.

So the concern, I think, on the part of myself, Senator Roth, and others, is whether this is the right way to go, not only in a dollars-and-cents analysis, but is it the right way to go in terms of building the kind of spirit that is necessary to keep our tax system the best in the world as far as voluntary compliance? Or do we, in the interest of saving the $55 million in the short run, ultimately deprive ourselves of long-term enhanced revenues or foster an adversarial relationship from which we may be unable to recover.

I think that those are obviously important policy decisions which we should make with great care. We have the responsibility to find out whether the decision to reduce IRS taxpayer assistance programs by 35 percent in fiscal 1983 is pennywise and pound-foolish.

So it's within that spirit that the Oversight Committee has asked you to testify today on the impact of the reductions in IRS taxpayer services.

TESTIMONY OF ROSCOE L. EGGER, JR., COMMISSIONER, INTERNAL REVENUE SERVICE, ACCOMPANIED BY M. EDDIE HEIRONIMUS, ASSISTANT COMMISSIONER FOR RETURNS AND INFORMATION PROCESSING

Mr. EGGER. Well, I appreciate your remarks very much, Mr. Chairman. I will attempt to truncate this statement here a bit so that we'll have more time for questions and answers.

I'd like to simply say that I have with me Mr. M. Eddie Heironimus, who is our Assistant Commissioner for Returns and Information Processing, which is a function that includes taxpayer service at the moment

I am sure that you are aware, Mr. Chairman, that this fiscal year 1983 budget request is the first to be totally shaped by the current administration. And because of this, each of the major programs and projects was reviewed in depth, with particular emphasis on rethinking the Service's long-term strategy for effective tax administration. We have intentionally taken a long-term approach wherever possible to provide the program commitment and continuity that is so often absent from a 1 year at a time approach.

The budget process is not easy and it requires many hard choices along the way. I believe the fiscal year 1983 IRS budget is a good one and does provide for the resources that the tax system in this country needs.

I am aware that some have criticized us for reducing the level of funding for taxpayer service, but I believe the final decision was justified in light of the need for fiscal austerity while retaining those services that only the IRS can provide.

One of the important objectives of this budget is to move the Internal Revenue Service ahead in modernizing our data processing systems and improving the efficiency of our field office. This will be accomplished by introducing new systems and procedures that make use of current technology. These initiatives are essential to effective tax administration in the 1980's.

Another major objective of this budget is that of improving tax enforcement. An equitable tax system requires that unreported tax be identified and assessed and that unpaid taxes be collected. This proposed budget includes some 5,225 average positions at a cost of $154 million to improve the Service's ability to deal in a firm and fair way with problems of noncompliance. These program improvements are necessary to assure that taxpayers pay their fair share of the tax burden and to secure the revenues provided for under existing tax laws.

Based on experience, the Service estimates that this increased enforcement capability will result in increased net revenues of approximately $1.9 billion that would otherwise not come into the Treasury in 1983.

It is true that the resources devoted to our taxpayer service program have been reduced in fiscal 1983. This is the result of some very difficult choices made during deliberations of the overall fiscal 1983 budget and will mean a definite reduction in service as we have known it in the past.

Basically, the reductions have been effected in our toll-free telephone system, which, beginning in Fiscal Year 1983, will be limited to answering taxpayer inquiries on their accounts, such as billings, refunds, and so on. We will no longer be able to respond to substantive tax law questions in this fashion.

The Taxpayer Service program will focus on those services which, for the most part, can only be provided by the Internal Revenue Service, such as the account questions I mentioned. And we also expect to answer some 12.6 million calls of this type during the year and then the walk-in service will be directed primarily toward answering account and notice-related questions. However, our self-help return preparation program will be continued, as will direct preparation of returns for handicapped taxpayers and others who demonstrate that they are unable to use self-help.

In total, we expect to assist about 5.2 million taxpayers through these walk-in services in fiscal 1983.

Taxpayer information programs will be continued, as will correspondence assistance and essentially all taxpayer education programs. Increased emphasis will be given to the IRS-sponsored volunteer tax programs in order to provide forms preparation to great numbers of elderly, low-income, and other taxpayers with special needs. We are also considering an expansion to all IRS district offices and large posts-of-duty of the Federal Tele-Tax Information Service, currently being tested in Baltimore, which provides recorded tax information to taxpayers with touch-tone telephones. We estimate that an additional 2.9 million individuals can be assisted through Tele-Tax once it's put into effect nation-wide.

In fiscal 1983, the Service will again contract for production of tax information shows for telecast by Public Broadcast television stations, and promote the use of forms 1040/1040A films and cassettes by community and library audiences. The problem resolution program will continue in fiscal 1983 and is expected to handle approximately 320,000 cases, about the same level as fiscal 1982.

So, overall, emphasis will be placed in fiscal 1983 on assisting all taxpayers who must rely on IRS for assistance, while allowing enhanced IRS volunteer tax assistance and tax information programs and the private sector to meet the tax law needs of other taxpayers.

Now I'd like to run through the six questions that you asked in your March 4 letter to me on this subject. So for ease of reference, I will repeat the questions here and then refer to my earlier testimony whenever needed.

Question. Do you believe it is the IRS's responsibility to provide tax assistance to the tax-paying public?

Answer. Yes; the Service is committed to providing assistance to the public. However, we feel that the time has come to reexamine the types of assistance the Service should provide and to seek out new cost-effective technology and alternative methods of delivering that assistance.

We feel that the Service should focus its efforts on these three categories of assistance: The type of assistance which can be provided only by the IRS, such as questions concerning bills, notices, and refunds; the type of assistance which can be provided most effectively by IRS. This is timely and effective distribution of forms, publications, and other tax information materials. And thirdly, special assistance geared toward the elderly, low income, handicapped, non-English speaking, and others who have difficulty complying with the current tax law.

Question. Do the savings realized from reducing taxpayer service outweigh the benefits, both direct and indirect, provided by the taxpayer assistance programs before they were cut? And what are the savings?

Answer. In fiscal 1983, the net dollar reduction to taxpayer assistance amounts to about $43 million net.[1] Other taxpayer service functions, such as the problem resolution program and tax forms distribution, were not reduced.

With respect to the benefits accruing to the Service as a result of providing technical assistance, we have been unable to measure any benefits resulting from most of our contacts. In 1976, we conducted an in-depth study of the taxpayer service returns preparation and review program. Although we determined there were benefits in terms of reduced mathematical errors, unallowables, and other costs incurred by the Service in perfecting returns, they were not enough to overcome, in traditional cost/benefit analysis terms, the cost of providing that assistance.

We would prefer to measure benefits in terms of increased voluntary compliance; that is, technical and mathematical accuracy of the return. However, we have not conducted a formal analysis of what effect taxpayer assistance has on compliance. Clearly, such an undertaking would be very time consuming and certainly very costly.

I also am not sure that the current research techniques would even allow us to answer the question with any degree of certainty after a survey.

We believe that taxpayers who request IRS assistance want to comply. Consequently, any change in compliance may be more related to the taxpayer's desire to comply or not to comply than to the effects of assistance provided.

Question. In light of reductions in taxpayer service, do you feel that the Service will have sufficient resources to assist those taxpayers who are unable to prepare their own returns or unable to pay for assistance?

Answer. Yes. It is this segment of the population to which one of our three categories of assistance will be specifically directed. The IRS will continue to offer self-help group assistance in completing tax returns, particularly for the elderly, low income, or others with special needs. For handicapped and other individuals who demonstrate an inability to use the self-help method, IRS will directly prepare their returns. We will also place increased emphasis on the IRS volunteer assistance programs.

In fiscal year 1981, our VITA program and the tax counseling for the elderly—TCE—program together had over 47,400 participants. These people prepared something over 370,000 returns.

In addition, our other education programs, including the understanding taxes high school program, small business workshops, student tax clinics, will be continued or enhanced to assist and educate individuals in meeting their tax obligations.

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[1] Subcommittee rules preclude witnesses from making substantive changes in testimony. See letter from the Internal Revenue Service, Apr. 7, 1982, p. 329.

Question. For those taxpayers unable to reach the IRS for free assistance, are there sufficient services offered in the private sector to provide them tax assistance?

Answer. We believe so, although we have not made any surveys on this point. However, for most individuals, there remains a wide variety of alternative forms of assistance available from the Internal Revenue Service.

As I have noted, all filers of record will be mailed one of our tax packages which contain the forms and the instructions in sufficient detail to correctly prepare most returns. A survey which we carried out recently showed that about 45 percent of the tax law questions could be answered from these packages alone. If the tax package is not sufficient, the individual can easily obtain additional forms for any of the over 90 specialized publications using the handy order form in the tax package. About 90 percent of the tax law questions, we believe, can be answered from these publications and from the tax packages. Technical tax assistance may also be available through the Tele-Tax system that I mentioned a bit earlier.

Question. Will reducing taxpayer assistance programs adversely affect compliance with our tax laws?

Answer. Frankly, Mr. Chairman, we do not know. We have been unable to measure the impact taxpayer assistance has on compliance. However, with the wide range of assistance programs which we expect to provide in fiscal 1983, we do not believe the taxpayers' desire or their ability to comply with the tax laws will be that adversely affected.

Question. What are the consequences of not providing taxpayer assistance?

Answer. We believe the consequences would be serious. However, we have no intention of eliminating taxpayer assistance. We feel that there must continue to be a taxpayer assistance function, although the thrust of that function and its objectives and the methods of delivery should be consistent with the economic realities of the times.

We are not convinced that the solution to a complex tax law is an unlimited expenditure on assistance. In fact, we think that better targeting of assistance and more up-to-date techniques can adequately fill the gap left by reduced resources. In 1983 and the immediate future, the Service will continue to direct its efforts toward increasing reliance on volunteer groups, new technology, and alternative and more cost-effective methods of providing that assistance.

I would like to conclude by restating the Service's belief that our budget request for fiscal 1983 is adequate for the tax administration programs we plan to operate. I also want to make it clear that we are committed to the principle that additional resources are not necessarily the only way to do our job. Important as they are in some cases, additional resources are but one approach of many available to us. As managers of the public's business, we owe it to the taxpayers to manage more efficiently with our limited resources.

And I'd like to say, Mr. Chairman, in closing that it is essential that the committee understand that we have no intention of eliminating taxpayer services. The debate here is really only how those services can best be provided. Certainly, we in IRS are committed to the concept that the taxpayers must be given an opportunity to get from us information which will assist them in compliance with the tax laws.

Senator COHEN. Thank you very much, Mr. Egger. Please let me reassure you that the members on this committee are trying to oversee ways in which we can save money and spend our money more efficiently, all the way from our procurement practices in the Defense Department to cutting down hurry-up spending by agencies. We cover an array of Government functions seeking ways in which to save money.

We're very sensitive to the need that we've got to be more efficient if we're going to retain any credibility with our constituents.

But what you just said raises another fundamental question. I think that Plato, if I can go back and use a quote, asked the question: "Is beauty good because it is pleasing to the gods, or is it pleasing to the gods because it is good?" I would have to ask the same sort of question of you: Are these reductions good because they're pleasing to the gods or are they pleasing to the gods because they're good?

That's something that we ought to go back and look at because it's my understanding that you originally recommended to the Secretary of the Treasury that taxpayer service be maintained at fiscal 1982 levels in fiscal 1983.[1] Is that correct?

Mr. EGGER. That's correct.

Senator COHEN. And that is because you believed the existing service was good.

Mr. EGGER. I did at that time.

Senator COHEN. At that time. Then by the time we got to the Secretary of the Treasury, the Secretary said that he wanted to eliminate this program and that was the Secretary's recommendation to OMB.[2]

Mr. EGGER. There was a recommendation that taxpayer service be eliminated entirely. This was through a misunderstanding of all that was incorporated in that particular area of the budget. And after reviewing it, the Secretary then did go back and ask OMB to make the change.

My comments in the memorandum, which I believe has been furnished to your committee, dealt more with the problems that we saw in eliminating taxpayer services, as such, versus the idea of eliminating or changing or modifying the manner in which the services are delivered.[3]

Senator COHEN. Well, thank you for that explanation. I come back to the initial point that your original recommendation was to continue the taxpayer assistance program at the fiscal 1982 level because you concluded, based upon all the reports that had been furnished over the years to IRS that it was, in fact, a good service and that it was a responsible course of action; otherwise, you wouldn't have recommended that.

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[1] See p. 202.
[2] See p. 223.
[3] See p. 233.

Mr. EGGER. As a result of the budget constraints, and it certainly was a direct result of that, we have gone back and looked very, very hard at just what is the nature of this nationwide telephone answering service. And we found some things about it that certainly cause us to hesitate as to whether or not this is the most efficient way to provide the services that we think are needed. For one, we do not know who it is that we are talking to on the phone. No survey of that type has been made. The General Accounting Office is in the process of making an audit, if you will, of that taxpayer service.

Senator COHEN. Let me stop you right there for a moment. You've known from past reports that the majority of the people dependent on IRS walk-in services were elderly and low income.

Mr. EGGER. Yes, no problem there.

Senator COHEN. The telephone system was put into effect because the IRS could not handle all of these people efficiently. Therefore, the IRS implemented a nationwide toll-free telephone network to provide as much service as it could to a greater number of people. And that was the original rationale for expanding, using modern technology—to take the burden off IRS walk-in offices which have in the past serviced millions of elderly and low-income taxpayers.

I think it's a fair assumption that the same people who are using the phone constitute a pretty good percentage of those who have used IRS walk-in services.

Mr. EGGER. Well, we really don't know that. We do know this—that a great percentage of the questions that we get are not questions from taxpayers wanting to or needing help in the preparation of their returns. Many of the questions are "Where is my refund?" and "How do I get form such and such?" things of that kind. They are not substantive tax law questions.

Senator COHEN. Have you kept data to indicate that?

Mr. EGGER. Yes, we do have that. And we have a rather elaborate survey of the percentage of questions in each category. I'd be happy to furnish that to the committee. It covers a wide range of things that we are asked on the phone.[1]

But we have some question as to who it is who's calling. For example, each year we get a number of petitions or requests from practitioner groups asking us to please set aside a separate number for them because they have trouble getting in on our phone lines. We wonder whether or not the Government should be furnishing at no cost that kind of assistance for the practitioner groups who are in the business of preparing tax returns for profit.

So there are lots of unanswered questions concerning just who it is who is using the telephone service and whether or not that is the most efficient way.

Senator COHEN. Mr. Commissioner, in your October 1981 memorandum to Deputy Secretary McNamar that has been furnished to the committee,[2] you were appealing the decision imposed by the Secretary of the Treasury to eliminate IRS taxpayer assistance programs in the fiscal 1983 budget. In that memo you listed the consequences of abolishing IRS tax assistance by telephone. No. 1 , over 27 million taxpayers would lose this assistance. No. 2, large increases in the correspondence on tax law questions would result which couldn't be answered. No. 3, with no help in interpreting the law, large numbers of taxpayers would interpret the law in a way favorable to themselves or ignore it, with little likelihood of detection. And No. 4, potential revenue losses would be great, with widespread deterioration of voluntary compliance.

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[1] See p. 295.

[2] See p. 233.

Now that was your memorandum to the Secretary of the Treasury appealing the decision to eliminate Taxpayer Service.

Mr. **Egger**. Right.

Senator **Cohen**. Has there been a change between the time you sent that memo and the time that you're here, saying that all these dire things now can be handled by other means?

Mr. **Egger**. I think the first thing that happened was the budget got reduced and necessitated a rethinking of how we were going to provide the maximum service.

Senator **Cohen**. That's what I want to get at, because what it really comes down to is a budgetary decision and not a policy judgment.

If this is a policy judgment, then it would seem to contradict at least a decade of IRS reports. I can appreciate the fact that you come before the committee, as you have, and say, it's a budgetary problem. They've cut IRS's Taxpayer Service budget and now you are trying to cope. In your statement, you have outlined the way that IRS is going to cope with the limited amount of money that it will receive for taxpayer assistance programs.

But I don't think that IRS can take and expand upon that and say, well, as a result of the investigation of this matter, No. 1, we don't know who we're serving out there; No. 2, the questions really aren't terribly relevant; No. 3, taxpayers can go to an IRS publication and find the answers to their questions if they have a ninth grade reading level; and No. 4, it's better to get tax assistance from the private sector anyway.

These so-called policy judgments which have now come forward from the IRS to the public and to the committee really are justifications imposed by the fact that you've had the taxpayer service budget cut. But it doesn't really reflect a fundamental change in your statement appealing that initial Treasury decision. The four basic consequences remain: 27 million people would lose the assistance; there would be large increases in correspondence which will not be answered; people would either interpret their tax returns favorably to themselves or ignore it altogether; and the potential losses due to reductions in voluntary compliance would be great. These are still very important elements in your own judgment.

Mr. **Egger**. I would have to agree with you, Mr. Chairman, that each of those elements is present, again, because of the necessity to attempt to comply with and to live within the concept of Government in the Reagan administration; namely, to reduce the size of the Government, to reduce the cost of Government to taxpayers. There is a very legitimate question now here as to what is enough in the way of taxpayer service? And I don't know that there is an answer.

The phone answering, the problem with it is that it's very elastic. If we answer 50 million telephone calls, that probably will not be quite enough. If we answer 80 million, maybe that will be enough. We don't know.

So the real problem is how do you decide where you stop and start? And what is the burden on the taxpaying public of providing a kind of open-ended service? Our feeling is that if we expand both our VITA program and if we expand our self-help program with such techniques as taking our own staff people out to public libraries and out to public schools in the evenings and be available to taxpayers in the neighborhoods, as distinguished from sticking to office hours in our own offices, that that might very well be much more effective than answering questions on the phone, which are sometimes very poorly articulated and occasionally, then, the people that are attempting to answer those questions, they are not the highly trained experts that we wish they were, again because of resource constraints.

So there are many, many things that we believe can be done at perhaps lower cost. And certainly, we believe that there may be more effective ways of doing that.

Senator **Cohen**. Is there a risk, in your judgment, that we might do what former Commissioner Alexander mentioned, and that is to undermine what has been to date the most effective tax collection system in the world because of the voluntary nature, because of the spirit in which the American people have responded?

Isn't there a danger in shifting the focus from assisting people and helping them prepare their returns to now suddenly saying, sorry, we won't answer your tax questions. You've got a prerecorded system to respond to tax questions, with the regular telephone assistors responding only to tax account issues. At the same time, the IRS has increased its auditors, which I understand there's a need for on another level.

As a result, you've promoted the IRS as the policeman. He's not the guy who used to be on the corner of the street passing out an apple to a schoolchild, but rather, he is seen as an adversary, and someone to either be avoided or evaded?

Now that is what some people see as a potential consequence for moving in that direction. I guess I just have one question: Is it wise to move in that direction without answering taxpayers' questions first, without asking whether or not the people who are calling up on the phone are really the elderly and low income, without determining whether or not the private sector could, in fact, offset the reductions in IRS taxpayer service programs.

For example, I have a letter from a tax consultant in the private sector and I'll just read a section from it. He says:

> If the IRS feels that the people like myself can or want to substitute for the IRS programs, I can assure you that this is not the case. Although I would certainly answer an occasional question by telephone, there is not, nor can there be, a private sector equivalent of the IRS telephone program.[1]

Here's a man who is in the business of taxpayer assistance, writing to me voluntarily, saying, we're just not going to do that. So then, the question again—where do the people who cannot afford commercial preparation go? Where do these 27 million people go? Do they, as you foresaw in your memo to the Deputy Secretary of the Treasury, either resolve all questions in their own favor or ignore their tax obligations altogether? Do they fail to file?

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[1] Letter retained in subcommittee files.

Don't you think that we ought to have answers to these questions before IRS takes this action? Otherwise, we're going to run the risk of turning the American people against the Government?

Mr. **Egger**. To be specific in responding to your question, I think that that risk is always present any time you reduce your accessibility to the taxpaying public for the purpose of lending assistance. I think that that is a fact. I wish I could outline all of the factors which have a positive or a negative effect on taxpayer compliance. If I could answer that question, I believe that I could then become the greatest expert in the world on tax systems because every country that I know, and I've dealt with about 30 countries around the world in trying to deal with that question, and no one has the answer yet, as far as I know.

Senator **Cohen**. So far, we've done better than all the others.

Mr. **Egger**. That's correct, we have.

Senator **Cohen**. Let me just discuss briefly the feasibility of relying on IRS-sponsored volunteer programs for tax law assistance. You've sponsored them in the past. The VITA program is the one that you referred to specifically and that would supplement the reductions in the toll-free telephone service.

My understanding is that, although you have an increase in the volunteers for the VITA program, the quality of assistance has gone down, and in fact, you have some data which show that the volunteer-prepared returns contain many, if not more, errors than similar returns prepared by the taxpayers themselves. Is that correct?

Mr. **Egger**. No. I think the way the ranking goes is that the rate of error in the returns is least in returns that are either prepared under our group assistance or direct assistance.

Senator **Cohen**. IRS has the best record.

Mr. **Egger**. That's correct. Then next is the case of third party or professional tax preparer assistance. And then the volunteer programs rank following. And then the greatest rate of error is in the returns that are prepared without assistance.

Mr. Heironimus is here and he can verify that. Have I said it correctly?

Mr. **Heironimus**. Yes. I would just add one point. That the accuracy rate, as I would prefer to call it, has actually improved from 1980. It was about the same in 1981. It has slightly improved and so far in 1982, again, our figures are somewhat limited, but there appears to be a trend in the other direction, Mr. Chairman, as opposed to a diminishing of the quality of VITA-prepared returns.

Senator **Cohen**. In the 1976 IRS report on the direct preparation and review programs, Mr. Commissioner, the Service cites the direct benefits that are going to be achieved by reducing the programs. I guess we're looking at it in a cost-benefit ratio. But what about the indirect benefits that are currently derived? For example, those who receive free IRS assistance would, in its absence, have resorted to commercial preparation, which they probably could not afford. The IRS came to that conclusion. Another indirect benefit is that the IRS return preparation program substantially reduced the incidence of unallowable items, thereby reducing the need for audits.

So there's another factor—if IRS receives a better return because you're helping to prepare it, the Service subsequently has less need to audit those returns. As a result you save money there, too. That's an indirect benefit which I don't believe has been calculated in the proposed reductions. Am I wrong on that?

Mr. **Egger**. I think that that's probably correct. We have not attempted to place any specific evaluation and, undoubtedly, if we can eliminate an error in a return, that saves our resources in other areas.

Senator **Cohen**. The fact is that IRS also has a record of demonstrating that you are best in interpreting new changes in the law over private sector firms. Is that not right?

Mr. **Egger**. I believe that the returns which have been prepared with our assistance have consistently ranked pretty high in relation to other returns. And that, by the way, is all involved in programs which we intend to continue. Those programs are not being discontinued.

Senator **Cohen**. Is it still your judgment that 90 percent of the people calling in on the telephone could find the answer to their questions in the existing publications?

Mr. **Egger**. That's a very limited survey and I certainly don't want, nor did I intend in my comments here, to indicate that we feel that those percentages are hard numbers, in effect.

We took a very, very limited survey only a week or so ago because I wanted to know whether or not the kinds of substantive questions we were getting were at least aiming toward a target in terms of our instructions and in terms of the publications.

I do believe, and this will be subject to a much broader survey, but I certainly believe that the bulk of the questions of substantive nature—that is, the tax law questions—can be answered from the material in the instructions and in our publication No. 17, which is the most commonly used publication of all of our nearly 100 publications.

Senator **Cohen**. You disagree with former Commissioner Alexander, who said that many, if not most, of the IRS publications are as complex as *Ulysses*?

Mr. **Egger**. Well, we're spending a little over a million dollars to take a very, very hard look at all of our instructions and the readability of those instructions and the information furnished to the taxpaying public because we do agree that, certainly in the past, that has been the case—a lot of legalese, a lot of highly complicated and difficult to understand language.

We are dealing here with an extremely complex law and in order to try and explain that in terms which can be understood at about the eighth grade reading level is not an easy task. But we are working very, very hard with an outside consulting firm aimed at just exactly that objective.

Senator **Cohen**. Commissioner, I'd like to refocus now on a parochial interest that I have, and that is the State of Maine. I'm looking to see what kind of impact the reductions of fiscal 1982 and 1983 have had there.

As a result of the 10-percent reduction in IRS taxpayer service of fiscal 1982, the IRS was forced to close walk-in offices around the country. In Maine, 9 of the 21 IRS walk-in offices were shut down in fiscal 1982. Just two of those offices in Maine last year provided assistance to over 10,000 taxpayers.[1]

With the 35-percent reduction proposed for fiscal 1983, as I understand it, telephone assistance will be drastically cut and will subsequently be limited to tax account questions as opposed to tax law issues.

Mr. EGGER. Yes.

Senator COHEN. My understanding is that tax account questions historically have made up about 35 percent of the questions asked. You indicate that you don't have that kind of data, so I may be off.

Mr. EGGER. In the telephone survey?

Senator COHEN. Yes.

Mr. EGGER. Oh, I think that we have data on the number of questions in each category.

Senator COHEN. My understanding is that about 65 percent of the calls to the IRS involved tax law issues.

Mr. EGGER. Let's let Mr. Heironimus answer that because he's got the data right here.

Mr. HEIRONIMUS. That's in the ball park. I believe our figures will say around 60 percent, a little over 60 percent, yes, sir.

Senator COHEN. In other words, these are people calling up, asking "Can I claim this deduction?"

Mr. HEIRONIMUS. That's correct.

Senator COHEN. So if you take 65 percent of the 135,000 calls projected to be made to the Augusta district office in fiscal 1983, over 87,000 calls are going to go unanswered, unless you're able to show me that we're going to be able to compensate with private sector assistance.

One final line of questioning and then I think that we can probably complete it. You mentioned this Tele-Tax. We have a copy of a tape. The Tele-Tax Information Service, as I understand it, is going to be a prerecorded service.

Mr. EGGER. Right.

Senator COHEN. Only those people who have touch-tone telephones will be able to use Tele-Tax.

Mr. EGGER. Right.

Senator COHEN. The difficulty is, in my State, once more, the majority of the people don't have touch-tone dial; they have rotary. So they're precluded from that altogether.

Mr. EGGER. That is a deficiency in this particular system.

Senator COHEN. Right. So I've got that particular problem. And then the second problem is the utility or the usefulness of the Tele-Tax Information Service. What I'm going to do is play a tape recording of the Tele-Tax service so it's clear exactly what this service can provide. I think it will raise questions to ordinary people, saying, well, how do I figure out what I'm supposed to do based upon this?

So I had a recording made of it, and I'm going to play it.

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[1] See pp. 286–287

Mr. **Egger**. I appreciate that. I would like to comment, however, that we are playing it only in the Baltimore district this year as a means of testing and as a means of finding out how we can improve it and whether or not it meets the target.

We are gathering some rather extensive statistics on this whole testing here.

Senator **Cohen**. I appreciate that. Also, I was going to call attention, if anybody hasn't seen it, to the *Time* March 29 issue which has an article on the IRS's efforts to simplify the tax forms themselves, which I commend you on. But I also couldn't help but look at your last comment, which said that:

> The Commissioner of the U.S. Internal Revenue Service, Roscoe Egger, warned that the U.S. form still won't be simple and easy to complete. We cannot have a truly simple tax form until we have a thoroughly reformed, simple tax law.

I couldn't agree with you more.

Mr. **Egger**. I believe that, Mr. Chairman.

Senator **Cohen**. I agree with you. Even though we're trying to provide measures like this, I think they're going to be very short in dealing with the nature of the problem. So it's within that spirit that we listen to this experimental system that you are trying in the Baltimore area.

[A tape recording of the Tele-Tax system is played—a transcription of the tape follows:]

> Thank you for calling the Federal Tele-Tax Information Number. This is a test program being conducted by the Internal Revenue Service. To use this service, you must have a push button phone to call up the tape you want to hear. It is useful to have a pencil and paper to take notes. Please listen to the entire tape so that at the end we can measure your reaction to this program. To hear more than one information tape you must call the Tele-Tax number again. If you have one of our brochures and know the three-digit number of the tape you want to hear, at the sound of the tone, simply press that three-digit number on your phone and then the asterisk button in the lower left-hand corner of your phone. If you do not have a brochure and need to hear the directory of tapes and their corresponding three-digit numbers, at the sound of the tone push the number 200 and then the asterisk button.
>
> There are nine main categories of topics for which we have tapes. I will give you a category followed by the tape number. To hear a listing of all topics in a category, note the tape number. At the sound of the tone, push the tape number on your phone and then the asterisk button on the lower left-hand corner of your phone. The nine categories and tape numbers are:
>
> Filing Requirements, Filing Status, Exemptions: Tape 300.
> Types of Income: Tape 400.
> Itemized Deductions: Tape 101.
> Adjustments to Income: Tape 201.
> Basis of Assets, Depreciation, Sale of Assets 301.
> Tax Computations: Tape 401.
> Tax Credits: Tape 116.
> General Information: Tape 216.
> Employer Tax Information: Tape 316.

Senator **Cohen**. Commissioner, I think the tape demonstrates some of my own concerns. You have to know what category you're looking for. Some of the people, I assume, that call up have no idea what they're looking for. If Commissioner Alexander or Kurtz were correct, some taxpayers don't even know how to phrase the question. They call up and they hear a tape saying, if you know the category that you're interested in, you can find it by requesting a certain tape, and dialing such and such a number. You've got to know the category. Many people call up not knowing what category to refer to. What does "type of income" mean? Does it mean partnership income? Does it mean unearned income? Does it mean capital gains type of income? Does it mean straight wages? They've got to know that even before they begin.

Adjustment to income, tax computations—I assume that the average person is going to have some problems in dealing with that tape. That's one issue. Maybe that can be overcome.

A second concern I have is a more philosophical question. That is, in what direction are we headed? Are we moving into the era of "big brother"? Maybe we are.

If you look at what has happened with the electronic media, you will find that many people today don't get their information from newspapers. They get news from the television set. I think that—with all due respect to those who represent the electronic media here today—it's mind-numbing considering the amount of hours that people today spend in front of a television getting their information.

It may be that the Internal Revenue Service has to move in the future to using some sort of electronic technique to reach into people's homes, providing information that otherwise would be given through telephone service. That might be some area that we have to move into.

In whatever direction we're going, I think that we ought to pause at some point and find out what we're doing as a society. This is a question about humanizing institutions—are we simply locked into a galaxy of sorts which is all computers, all digits, all numbers, with no people in between? I don't know that we're stopping and pausing long enough to think about the larger philosophical issues of what's happening in our society, especially as it pertains to the individual and the Government.

Now it may be that we are locked into the age of the computer. That's something that perhaps we have no control over at this particular point. We do have some measure of control over how people relate to their Government. I keep going back to Toffler's book because it made such an impact on me personally, when he started talking about the "third wave" and what's happening to people's spirits. These massive institutions are starting to overwhelm the individual human soul, to the point where we're losing a sense of connection about who we are and where we're going. Somehow, we've got to take that into account while preserving a sense of the individual, a sense of identity, at the same time recognizing that we're rocketing our way through time.

That really goes beyond your particular judgment, obviously, but it's something that a number of us are concerned about. How do we continue to structure our Government in terms of its relationship with its people? And is it worth the price? Is it worth the cost that's involved to fund the walk-in offices? Is the toll-free telephone network a better system? Does it have more errors? Or is IRS going to get into a television medium, where you plug everything in and you get all your information off of a television screen, and the screen itself starts to talk to you? How far away is that from Mr. Orwell? I don't know.

I appreciate your willingness to come before the committee. I think that you have been very helpful and very candid, frankly, in presenting your testimony. I appreciate the information that you have furnished to us, outlining your views, your original views, and the fact that they had to change, principally because of budgetary considerations.

Thank you very much.

Mr. EGGER. I would like for you to continue with your philosophical inquiry. I happen to be very concerned, personally, about where we are going in terms of the large volume of data that we have to attempt to cope with and the tremendous burden that is placed on the tax-paying public in attempting to comply with these very complex laws.

So I have a great appreciation for that and certainly hope that that will continue to be a subject of some debate, both here and elsewhere in the Government.

Senator COHEN. Thank you very much, Mr. Commissioner. The hearing will stand adjourned today. We're going to keep the record open for a period of 30 days for any additional questions that may be asked of you and any responses you may have. We'll let the record stay open for 30 days.

Mr. EGGER. Certainly.

[The prepared statement of Mr. Egger follows:]

STATEMENT OF
ROSCOE L. EGGER, JR.
COMMISSIONER OF INTERNAL REVENUE
BEFORE THE
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

MARCH 24, 1982

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY TO DISCUSS THE SERVICE'S TAXPAYER SERVICE PROGRAMS. IN MY TESTIMONY, I WILL BRIEFLY REVIEW THE OVERALL RESOURCE PICTURE FOR IRS IN FY 1983, SUMMARIZE THE CONTENT OF OUR PLANNED TAXPAYER SERVICE PROGRAM FOR THAT YEAR, AND RESPOND TO THE QUESTIONS YOU POSED IN YOUR MARCH 4 LETTER TO ME.

WITH ME TODAY IS EDDIE HEIRONIMUS, OUR ASSISTANT COMMISSIONER FOR RETURNS AND INFORMATION PROCESSING, A FUNCTION WHICH INCLUDES TAXPAYER SERVICE.

SUMMARY OF THE IRS BUDGET

AS I AM SURE YOU ARE AWARE, MR. CHAIRMAN, THIS FY 1983 BUDGET REQUEST IS THE FIRST TO BE TOTALLY SHAPED BY THE CURRENT ADMINISTRATION. BECAUSE OF THIS, EACH MAJOR PROGRAM

AND PROJECT WAS REVIEWED IN DEPTH, WITH PARTICULAR EMPHASIS ON RETHINKING THE SERVICE'S LONG-TERM STRATEGY FOR EFFECTIVE TAX ADMINISTRATION. WE HAVE INTENTIONALLY TAKEN A LONG TERM APPROACH WHEREVER POSSIBLE, TO PROVIDE THE PROGRAM COMMITMENT AND CONTINUITY SO OFTEN ABSENT FROM A ONE-YEAR-AT-A-TIME APPROACH.

THE BUDGET PROCESS IS NOT EASY AND REQUIRES MANY HARD CHOICES ALONG THE WAY. I BELIEVE THE FY 1983 IRS BUDGET IS A GOOD ONE, AND DOES PROVIDE THE RESOURCES THAT THE NATION'S TAX SYSTEM NEEDS. I AM AWARE THAT SOME HAVE CRITICIZED US FOR REDUCING THE LEVEL OF FUNDING FOR TAXPAYER SERVICE, BUT I BELIEVE THE FINAL DECISION WAS JUSTIFIED IN LIGHT OF THE NEED FOR FISCAL AUSTERITY WHILE RETAINING THOSE SERVICES THAT ONLY IRS CAN PROVIDE.

OUR PROPOSED BUDGET FOR FISCAL YEAR 1983 PROVIDES FOR AVERAGE EMPLOYMENT OF 88,673 AND SOME $2.917 BILLION. THIS IS AN INCREASE OF SOME 3,300 AVERAGE POSITIONS FROM THE AUTHORIZED LEVEL PROPOSED FOR FISCAL YEAR 1982. IN DOLLARS, THE FISCAL YEAR 1983 REQUEST IS $328.1[*] MILLION MORE THAN THE PROPOSED LEVEL FOR FISCAL YEAR 1982.

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[*] INCREASED PAY COSTS, IN EXCESS OF $90 MILLION, ARE INCLUDED IN THE FY 1983 FIGURES BUT NOT THE FY 1982 ESTIMATES (AT THIS POINT), CAUSING THE INCREASE BETWEEN THE TWO YEARS TO APPEAR LARGER THAN IT MAY ULTIMATELY BE.

These proposals include major increases to improve IRS' effectiveness and efficiency of operation, as well as tax enforcement. In keeping with the Administration's goals, these cost-effective proposals should help lessen the need for future staffing.

One of the important objectives of this budget is to move the Internal Revenue Service ahead in modernizing our ADP systems and improving the efficiency of our field offices. This will be accomplished by introducing new systems and procedures that make use of current technology. The budget includes approximately 300 average positions and $75.3 million for this purpose. These initiatives are essential to effective tax administration in the 1980's.

The other major objective of this budget is that of improving tax enforcement. An equitable tax system requires that unreported tax be identified and assesed, and that unpaid tax be collected. This proposed budget includes some 5,225 average positions and $154 million to improve the Service's ability to deal in a firm and fair way with problems of noncompliance. These program improvements are necessary to assure that taxpayers pay their fair share of the tax burden, and to secure the revenues provided for under existing tax law. Based on expepience, the Service estimates that this increased enforcement capability will result in increased net revenues of approximately $1.9 billion that would otherwise not come into the Treasury in 1983.

THE TAXPAYER SERVICE PROGRAM FOR FY 1983

IT IS TRUE THAT THE RESOURCES DEVOTED TO OUR TAXPAYER SERVICE PROGRAM HAVE BEEN REDUCED IN FY 1983. THIS IS THE RESULT OF SOME VERY DIFFICULT CHOICES MADE DURING DELIBERATIONS OF THE OVERALL FY 1983 BUDGET, AND WILL MEAN A DEFINITE REDUCTION IN SERVICE AS WE'VE KNOWN IT IN THE PAST.

BASICALLY, THE REDUCTIONS HAVE BEEN EFFECTED IN OUR TOLL-FREE TELEPHONE SYSTEM, WHICH BEGINNING IN FISCAL YEAR 1983 WILL BE LIMITED TO ANSWERING TAXPAYER INQUIRIES ON THEIR ACCOUNTS, SUCH AS BILLING, REFUNDS, AND SO ON. WE WILL NO LONGER BE ABLE TO RESPOND TO SUBSTANTIVE TAX LAW QUESTIONS IN THIS FASHION. THIS TRADE-OFF, HOWEVER, ENABLES US TO PRESERVE MOST OF THE OTHER SERVICES TRADITIONALLY OFFERED TO TAXPAYERS.

THE TAXPAYER SERVICE PROGRAM WILL FOCUS ON THOSE SERVICES WHICH FOR THE MOST PART CAN ONLY BE PROVIDED BY THE INTERNAL REVENUE SERVICE, SUCH AS THE ACCOUNT QUESTIONS I MENTIONED ABOVE. WE EXPECT TO ANSWER SOME 12.6 MILLION CALLS OF THIS TYPE IN FY 1983. QUICK QUESTION WALK-IN SERVICE WILL ALSO BE DIRECTED PRIMARILY TOWARD ANSWERING ACCOUNT AND NOTICE RELATED QUESTIONS. THE SELF-HELP RETURNS PREPARATION PROGRAM WILL BE CONTINUED, AS WILL DIRECT PREPARATION OF RETURNS FOR HANDICAPPED TAXPAYERS OR OTHERS WHO DEMONSTRATE THEY ARE UNABLE TO USE SELF-HELP. IN TOTAL, WE EXPECT TO ASSIST ABOUT 5.2 MILLION WALK-IN TAXPAYERS IN FY 1983.

TAXPAYER INFORMATION PROGRAMS WILL BE CONTINUED, AS WILL CORRESPONDENCE ASSISTANCE AND ALL TAXPAYER EDUCATION PROGRAMS EXCEPT INSTITUTES CURRENTLY CONDUCTED FOR PROFESSIONAL TAX PRACTITIONERS. INCREASED EMPHASIS WILL BE GIVEN TO THE IRS-SPONSORED VOLUNTEER TAX PROGRAMS IN ORDER TO PROVIDE FORMS PREPARATION TO GREATER NUMBERS OF ELDERLY, LOW INCOME, AND OTHER TAXPAYERS WITH SPECIAL NEEDS. WE ARE ALSO CONSIDERING AN EXPANSION TO ALL IRS DISTRICT OFFICES AND LARGE POSTS-OF-DUTY OF THE FEDERAL TELE-TAX INFORMATION SERVICE, WHICH IS CURRENTLY BEING TESTED IN BALTIMORE AND WHICH PROVIDES RECORDED TAX INFORMATION TO TAXPAYERS HAVING TOUCH-TONE TELEPHONES. WE ESTIMATE AN ADDITIONAL 2.9 MILLION INDIVIDUALS COULD BE ASSISTED THROUGH TELE-TAX.

IN FY 1983, IRS WILL AGAIN CONTRACT FOR PRODUCTION OF TAX INFORMATION SHOWS FOR TELECAST BY PUBLIC BROADCAST TELEVISION STATIONS, AND PROMOTE THE USE OF FORMS 1040/1040A FILMS AND CASSETTES BY COMMUNITY/LIBRARY AUDIENCES. THE PROBLEM RESOLUTION PROGRAM WILL CONTINUE IN FY 1983, AND IS EXPECTED TO HANDLE APPPROXIMATELY 320,000 CASES, THE SAME AS IN FY 1982.

SO OVERALL, EMPHASIS WILL BE PLACED IN FY 1983 ON ASSISTING ALL TAXPAYERS WHO MUST RELY ON IRS FOR ASSISTANCE, WHILE ALLOWING ENHANCED IRS VOLUNTEER TAX ASSISTANCE AND TAX INFORMATION PROGRAMS AND THE PRIVATE SECTOR TO MEET THE TAX LAW NEEDS OF OTHER TAXPAYERS.

WE DO NOT BELIEVE THAT THE DECISION TO STOP ANSWERING TAX LAW QUESTIONS THROUGH THE TOLL-FREE SYSTEM WILL LEAVE TAXPAYERS WITHOUT A WAY TO HAVE THEIR QUESTIONS ANSWERED BY THE IRS. WE FEEL THAT THE ANSWERS TO A MAJORITY OF QUESTIONS ARE EASILY FOUND IN OUR PUBLICATIONS AND FORMS PACKAGES.

TO SUBSTANTIATE OUR THEORY, WE CONDUCTED AN INFORMAL SURVEY ON MARCH 12 OF 181 TELEPHONE CALLS RECEIVED IN SEVEN DISTRICTS THROUGHOUT THE COUNTRY. THE PURPOSE OF THIS SURVEY WAS TO DETERMINE IF TAXPAYERS COULD HAVE LOCATED ANSWERS TO THEIR TAX LAW QUESTIONS IN AN IRS PUBLICATION. KEEP IN MIND THAT THIS SURVEY WAS DONE AFTER MOST 1040A RETURNS HAD BEEN FILED, SO THE INQUIRIES RECEIVED TEND TO RELATE TO THE 1040, AND ARE THEREFORE MORE COMPLEX. THE RESULTS OF THE SURVEY SHOWED THAT:

° ABOUT 90% OF THE TAXPAYERS COULD HAVE FOUND THE ANSWER TO THEIR INQUIRY IN ONE OR MORE IRS PUBLICATIONS OR TAX PACKAGES.

° ABOUT 45% OF THE TAXPAYERS COULD HAVE FOUND THE ANSWER TO THEIR INQUIRY IN THE 1040/1040A TAX PACKAGE WE SENT THEM.

WE BELIEVE THIS SURVEY INDICATES THAT THE INCONVENIENCE OF NOT HAVING IRS ANSWER TAX LAW QUESTIONS OVER THE PHONE IS LARGELY AMELIORATED BY FREE, EASILY AVAILABLE PUBLICATIONS. THE POSSIBLE EXPANSION OF OUR NEW TELE-TAX PROGRAM WILL BE ANOTHER SIGNIFICANT FACTOR.

In order to insure that taxpayers can obtain our forms and publications quickly, we've taken steps to improve the efficiency of our forms distributions process.

The IRS currently distributes tax forms to the public by a variety of means, including 40,000 banks and post offices, 16,000 public libraries, 2,000 local government offices, and 700 IRS field offices. This year, we've added about 2,000 new outlets, which are reflected in the aforementioned figures.

Our service standard for responding to requests for tax materials is that the requested materials will be mailed within 72 hours. This represents a decrease of 72 hours in response time from just a few years ago. During filing season peaks, however, this may slip to 96 hours.

However, we plan to increase our responsiveness to taxpayers even more through "CIDS" -- the Centralized Inventory and Distribution System, which is an automated system expected to save IRS some $6.5 million in space and labor costs annually when fully implemented in 1985. Anticipated benefits include faster order fulfillment, less need for inventories of materials, and individual order tracking.

Taxpayer Service Questions

Now I would like to turn to the six questions you asked in your March 4 letter to me on this subject. For ease of

REFERENCE, I WILL REPEAT YOUR QUESTIONS HERE, AND REFER TO MY EARLIER TESTIMONY AS NECESSARY.

1. DO YOU BELIEVE IT IS THE IRS'S RESPONSIBILITY TO PROVIDE TAX ASSISTANCE TO THE TAXPAYING PUBLIC?

YES. THE SERVICE IS COMMITTED TO PROVIDING ASSISTANCE TO THE PUBLIC. HOWEVER, WE FEEL THE TIME HAS COME TO REEXAMINE THE TYPES OF ASSISTANCE THE SERVICE SHOULD PROVIDE, AND TO SEEK OUT NEW, COST-EFFECTIVE TECHNOLOGY AND ALTERNATIVE METHODS OF DELIVERING THAT ASSISTANCE.

WE FEEL THE SERVICE SHOULD FOCUS ITS EFFORTS ON THREE CATEGORIES OF ASSISTANCE: THE TYPE OF ASSISTANCE WHICH CAN BE PROVIDED ONLY BY THE IRS, SUCH AS QUESTIONS CONCERNING BILLS, NOTICES AND REFUNDS; THE TYPE OF ASSISTANCE WHICH CAN BE PROVIDED MOST EFFECTIVELY BY IRS, SUCH AS TIMELY AND EFFECTIVE DISTRIBUTION OF FORMS, PUBLICATIONS AND OTHER TAX INFORMATION MATERIALS; AND SPECIAL ASSISTANCE GEARED TOWARD THE ELDERLY, LOW INCOME, HANDICAPPED, NON-ENGLISH SPEAKING AND OTHERS WHO HAVE DIFFICULTY COMPLYING WITH CURRENT TAX LAW.

2. DO THE SAVINGS REALIZED FROM REDUCING TAXPAYER SERVICE OUTWEIGH THE BENEFITS -- BOTH DIRECT AND INDIRECT -- PROVIDED BY THE TAXPAYER ASSISTANCE PROGRAMS BEFORE THEY WERE CUT? WHAT ARE THE SAVINGS?

IN FY 1983, THE NET DOLLAR REDUCTION TO TAXPAYER ASSISTANCE AMOUNTS TO ABOUT $43 MILLION[1] (A $50 MILLION PROGRAM REDUCTION PARTIALLY OFFSET BY $7 MILLION FOR PAY AND OTHER COST INCREASES). OTHER TAXPAYER SERVICE FUNCTIONS, SUCH AS THE PROBLEM RESOLUTION PROGRAM AND TAX FORMS DISTRIBUTION, WERE NOT REDUCED.

WITH RESPECT TO THE BENEFITS ACCRUING TO THE SERVICE AS A RESULT OF PROVIDING TECHNICAL ASSISTANCE, WE HAVE BEEN UNABLE TO MEASURE ANY BENEFITS RESULTING FROM MOST OF OUR CONTACTS. IN 1976, WE CONDUCTED AN IN-DEPTH STUDY OF THE TAXPAYER SERVICE RETURNS PREPARATION AND REVIEW PROGRAM. ALTHOUGH WE DETERMINED THERE WERE BENEFITS, IN TERMS OF REDUCED MATHEMATICAL ERRORS, UNALLOWABLES AND OTHER COSTS INCURRED BY THE SERVICE IN PERFECTING RETURNS, THEY WERE NOT ENOUGH TO OVERCOME, IN TRADITIONAL COST/BENEFIT ANALYSIS TERMS, THE COST OF PROVIDING THAT ASSISTANCE.

WE WOULD PREFER TO MEASURE BENEFITS IN TERMS OF INCREASED VOLUNTARY COMPLIANCE, I.E., TECHNICAL AND MATHEMATICAL ACCURACY OF THE RETURN. HOWEVER, WE HAVE NOT CONDUCTED A FORMAL ANALYSIS OF WHAT EFFECT TAXPAYER ASSISTANCE HAS ON COMPLIANCE. CLEARLY, SUCH AN UNDERTAKING WOULD BE VERY TIME CONSUMING AND COSTLY. I ALSO AM NOT SURE THAT CURRENT RESEARCH TECHNIQUES WOULD EVEN ALLOW US TO ANSWER THE QUESTION WITH ANY REAL DEGREE OF CERTAINTY.

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[1] Subcommittee rules preclude witnesses from making substantive changes in testimony. See letter from the Internal Revenue Service, April 7, 1982, p. 329.

WE BELIEVE THAT TAXPAYERS WHO REQUEST IRS ASSISTANCE WANT TO COMPLY. CONSEQUENTLY, ANY CHANGE IN COMPLIANCE MAY BE MORE RELATED TO THE TAXPAYER'S DESIRE TO COMPLY OR NOT TO COMPLY THAN TO THE EFFECTS OF ASSISTANCE PROVIDED.

3. IN LIGHT OF REDUCTIONS IN TAXPAYER SERVICE, DO YOU FEEL THAT THE SERVICE WILL HAVE SUFFICIENT RESOURCES TO ASSIST THOSE TAXPAYERS WHO ARE UNABLE TO PREPARE THEIR OWN RETURNS AND/OR UNABLE TO PAY FOR ASSISTANCE?

YES. IT IS THIS SEGMENT OF THE POPULATION TO WHICH ONE OF OUR THREE CATEGORIES OF ASSISTANCE WILL BE SPECIFICALLY DIRECTED. THE IRS WILL CONTINUE TO OFFER SELF-HELP/GROUP ASSISTANCE IN COMPLETING TAX RETURNS PARTICULARLY FOR THE ELDERLY, LOW INCOME OR OTHERS WITH SPECIAL NEEDS. FOR HANDICAPPED AND OTHER INDIVIDUALS WHO DEMONSTRATE AN INABILITY TO USE THE SELF-HELP METHOD, IRS WILL DIRECTLY PREPARE THEIR RETURNS. WE WILL ALSO PLACE INCREASED EMPHASIS ON THE IRS VOLUNTEER ASSISTANCE PROGRAMS. IN FY 1981, OUR VOLUNTEER INCOME TAX ASSISTANCE (VITA) PROGRAM AND OUR TAX COUNSELING FOR THE ELDERLY (TCE) PROGRAM TOGETHER HAD OVER 47,400 PARTICIPANTS, WHO PREPARED NEARLY 372,000 RETURNS. IN ADDITION, OUR OTHER EDUCATION PROGRAMS, INCLUDING THE UNDERSTANDING TAXES HIGH SCHOOL PROGRAM, SMALL BUSINESS WORKSHOPS AND STUDENT TAX CLINICS WILL BE CONTINUED OR ENHANCED TO ASSIST AND EDUCATE INDIVIDUALS IN MEETING THEIR TAX OBLIGATIONS.

4. FOR THOSE TAXPAYERS UNABLE TO REACH THE IRS FOR FREE ASSISTANCE, ARE THERE SUFFICIENT SERVICES OFFERED IN THE PRIVATE SECTOR TO PROVIDE THEM TAX ASSISTANCE?

WE BELIEVE SO, ALTHOUGH WE HAVE NOT MADE ANY SURVEYS ON THIS POINT.

HOWEVER, FOR MOST INDIVIDUALS, THERE REMAINS A WIDE VARIETY OF ALTERNATIVE FORMS OF ASSISTANCE AVAILABLE FROM THE INTERNAL REVENUE SERVICE. AS I NOTED EARLIER, ALL FILERS OF RECORD WILL BE MAILED ONE OF OUR TAX PACKAGES, WHICH CONTAIN THE FORMS AND INSTRUCTIONS IN SUFFICIENT DETAIL TO CORRECTLY PREPARE MOST RETURNS. AS OUR SURVEY SHOWED, ABOUT 45% OF THE TAX LAW QUESTIONS COULD BE ANSWERED FROM THESE PACKAGES. IF THE TAX PACKAGE IS NOT SUFFICIENT, THE INDIVIDUAL CAN EASILY OBTAIN ADDITIONAL FORMS, OR ANY OF THE OVER 90 SPECIALIZED PUBLICATIONS, USING THE HANDY ORDER FORM IN THE TAX PACKAGE. ABOUT 90% OF TAX LAW QUESTIONS CAN BE ANSWERED FROM THESE PUBLICATIONS AND THE TAX PACKAGES. TECHNICAL TAX ASSISTANCE MAY ALSO BE AVAILABLE THROUGH THE TELE-TAX SYSTEM I MENTIONED EARLIER.

5. WILL REDUCING TAXPAYER ASSISTANCE PROGRAMS ADVERSELY AFFECT COMPLIANCE WITH OUR TAX LAWS?

WE DON'T KNOW. WE HAVE BEEN UNABLE TO MEASURE THE IMPACT TAXPAYER ASSISTANCE HAS ON COMPLIANCE.

HOWEVER, WITH THE WIDE RANGE OF ASSISTANCE PROGRAMS WHICH WE WILL PROVIDE IN FY 1983, WE DON'T BELIEVE THE TAXPAYERS' DESIRE OR ABILITY TO COMPLY WILL BE ADVERSELY AFFECTED.

6. WHAT ARE THE CONSEQUENCES OF NOT PROVIDING TAXPAYER ASSISTANCE?

WE BELIEVE THE CONSEQUENCES WOULD BE SERIOUS; HOWEVER, WE HAVE NO INTENTION OF ELIMINATING TAXPAYER ASSISTANCE. WE FEEL THERE MUST CONTINUE TO BE A TAXPAYER ASSISTANCE FUNCTION, ALTHOUGH THE THRUST OF THAT FUNCTION, AND ITS OBJECTIVES AND METHODS OF DELIVERY, SHOULD BE CONSISTENT WITH THE ECONOMIC REALITIES OF THE TIMES. WE ARE NOT CONVINCED THAT THE SOLUTION TO A COMPLEX TAX LAW IS AN UNLIMITED EXPENDITURE ON ASSISTANCE; IN FACT, WE THINK BETTER TARGETING OF ASSISTANCE AND MORE UP-TO-DATE TECHNIQUES CAN ADEQUATELY FILL THE GAP LEFT BY REDUCED RESOURCES. IN 1983 AND THE IMMEDIATE FUTURE, THE SERVICE WILL CONTINUE TO DIRECT ITS EFFORTS TOWARDS INCREASING RELIANCE ON VOLUNTEER GROUPS, NEW TECHNOLOGY, AND ALTERNATIVE AND MORE COST-EFFECTIVE METHODS OF PROVIDING THAT ASSISTANCE.

CONCLUSION

I WOULD LIKE TO CONCLUDE BY RESTATING THE SERVICE'S BELIEF THAT OUR BUDGET REQUEST FOR FY 1983 IS ADEQUATE FOR

THE TAX ADMINISTRATION PROGRAMS WE PLAN TO OPERATE. I ALSO WANT TO MAKE IT CLEAR THAT WE ARE COMMITTED TO THE PRINCIPLE THAT ADDITIONAL RESOURCES ARE NOT THE ONLY WAY TO DO OUR JOB. IMPORTANT AS THEY ARE IN SOME CASES, ADDITIONAL RESOURCES ARE BUT ONE APPROACH OF MANY AVAILABLE TO US. AS MANAGERS OF THE PUBLIC'S BUSINESS, WE OWE IT TO THE TAXPAYERS TO MANAGE SMARTER AND MORE EFFICIENTLY WITH LIMITED RESOURCES. OUR FY 1983 REQUEST IS AN IMPORTANT FIRST STEP IN THAT DIRECTION.

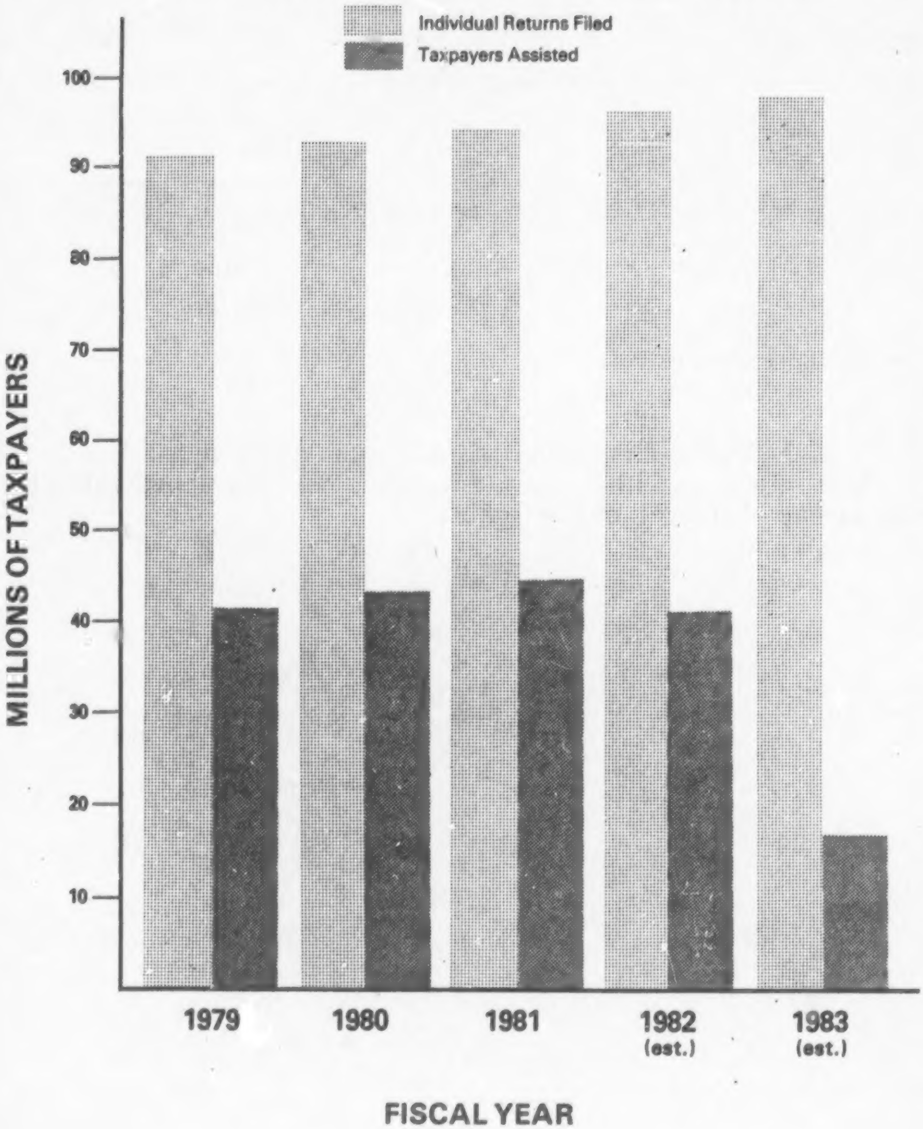
THIS CONCLUDES MY PREPARED TESTIMONY. MR. HEIRONIMUS AND I WILL BE PLEASED TO TRY AND ANSWER ANY QUESTIONS YOU OR THE MEMBERS OF THE SUBCOMMITTEE MAY HAVE.

Senator COHEN. The committee will stand adjourned.

[Whereupon, at 11:35 a.m., the hearing was adjourned subject to reconvene at the call of the Chair.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

TAX RETURNS FILED VS. TAXPAYERS ASSISTED



Statement of David A. Affeldt, Legislative Consultant, National Retired Teachers Association and the American Association of Retired Persons

The National Retired Teachers Association and American Association of Retired Persons have long maintained that tax preparation assistance is a high priority service for older Americans.

Many people mistakenly assume that the federal income tax is not important for the elderly. It is true that less than one-half of all older Americans pay federal income tax because:

-- Social Security is exempt from federal income tax;

-- Millions of elderly persons do not have enough income to file a return.

However, nearly 11 million persons 65 or older had a sufficient amount of income to file a return for taxable year 1978. A substantial number of these individuals experience problems in preparing their returns, for several reasons:

-- The tax forms are complicated, especially for elderly widows;

-- The Internal Revenue Code is voluminous and complex;

-- The 1981 Economic Recovery Tax Act includes several new provisions, such as the All Savers Certificate and the $125,000 capital gains exclusion for homeowners 55 or older.

Moreover, Congress has approved additional measures to ease the tax burden of older Americans and other taxpayers in recent years, including the tax credit for the elderly and others. But these provisions are of little value unless aged persons are aware of their existence. Even those who know about these measures frequently need assistance in making the necessary computations.

This is a major reason that NRTA-AARP established the Tax-Aide program in 1968. Today Tax-Aide has become a nationwide program that provides competent and efficient tax counseling and preparation services for older Americans.

Elderly volunteers are trained by IRS and provide services without charge in a wide range of settings, including conveniently located community sites, senior centers nursing homes, and in-homes for shut-ins. Tax-Aide is the largest of the TCE programs. It will help taxpayers file over one million federal, state, and local tax returns this year. The Older Americans Tax Counseling Assistance Act, which authorizes funding to reimburse volunteers for out-of-pocket expenses, has enabled Tax-Aide to reach out and serve elderly shut-ins more effectively. IRS has referred many of these individuals to Tax-Aide.

A. Benefits to IRS

TCE is vitally important for IRS, because the IRS taxpayer service capabilities are limited by budgetary constraints. This is especially true now because the Administration proposes major reductions in taxpayer services. Voluntary tax counselors can be particularly helpful in closing the gap between the public need for assistance and the IRS capability to respond, covering assistance sites formerly staffed by IRS personnel. As a recent article in The Wall Street Journal pointed out, the sites have been swamped this year by the increased demand for assistance, as IRS no longer provides the walk-in assistance it did in past years. IRS also frequently asks TCE counselors to assist shut-ins because these volunteers are reimbursed for their travel expenses. Our Tax-Aide program, for example, assisted 9,000 shut-ins last year.

In addition, TCE volunteers can build upon IRS training activities to insure more intensive and comprehensive instruction than IRS can provide. The Association's Tax Aide program typically offers a five-day block of instruction to train tax counselors. This permits our tax counselors to have more in-depth instruction and knowledge of the tax code. We strongly believe that this additional effort pays off by making our tax counselors more accurate and efficient. In 1980, for example, the error rate for tax counselors in Yuma, Arizona, who were taught by NRTA-AARP Tax-Aide volunteers, was less than 0.4 percent. These volunteers prepared more than 750 returns and made only three errors.

B. Benefits to Older Americans

Older Americans also benefit from TCE, particularly those who need assistance but cannot afford to pay a preparer. Competent volunteer tax counselors can help prepare accurate returns for these individuals. In addition, volunteer tax consultants can improve taxpayer compliance. This, of course, can help to reduce IRS administrative costs. These are important dividends, especially during a period when the public is demanding greater efficiency and cost effectiveness in the delivery of services and the IRS capability to meet this demand is decreasing.

IRS estimates that about 96 million individual income tax returns will be filed during fiscal year 1982. Many persons have already discovered that Form 1040 with its accompanying schedules can present formidable problems.

However, it may be even more complicated for older Americans because they are frequently exposed to new and more complex rules upon reaching retirement age. Elderly widows perhaps experience the most serious problems because they typically have little or no experience in preparing a tax return. The net impact is that the tax form can be like a labyrinth with linguistic booby traps for older persons. Tax counseling assistance, though, can help elderly persons overcome these obstacles. It can also enable them to comply with the tax law while claiming every benefit to which they are entitled.

IRS has repeatedly stressed over the years that no taxpayer should pay more tax than legally required. Our experience at the Tax-Aide program makes it abundantly clear that numerous elderly persons needlessly overpay their taxes each year, for a variety of reasons. Some are confused by the tax form. Others are unaware of available deductions, credits, and exemptions. We have assisted those who have sought our help. We have filed amended returns to claim deductions that taxpayers overlooked. We have conducted thorough interviews to insure that the elderly claim all applicable tax benefits and have checked many returns for accuracy.

This service is provided without "taking business away" from professional preparers. The vast majority of Tax-Aide clients have moderate or limited income. However, they oftentimes have complicated tax situations--at least from their perspective. In most cases, professional tax consultants would be required to devote considerable time to prepare a return with comparatively small compensation for their services. This is one important reason that numerous professional preparers actually refer clients--particularly those with limited income--to the Tax-Aide or other TCE programs.

The Associations also want to emphasize that Tax-Aide, as well as other TCE volunteers, are specifically instructed not to prepare returns beyond their level of competence. If a volunteer is confronted with a complicated tax situation, he or she can refer the client to IRS or point out that private preparers are available. Counselors, though, are not allowed to recommend specific preparers.

C. Benefits for Nation, Volunteers, and Others

TCE provides other benefits as well, to the Nation, the elderly volunteers, and the people they assist. The Associations' experience demonstrates that tax preparation assistance is a high priority service for older Americans. TCE delivers this important service at a very low cost with minimum administrative expenses. The great bulk of the funding--about 90 percent--reimburses volunteers for their out-of-pocket expenses in helping others in their communities. Only 10 percent of the funding is allowed for the sponsoring organization's administrative costs.

We believe that reimbursement serves a valuable purpose, even though many volunteers do not submit vouchers for their expense. First, some older persons cannot participate in the program without reimbursement for their out-of-pocket expenses. The Associations strongly believe that TCE should attract all qualified tax counselors, not just those who have the resources to cover their expenses. Second, volunteers are more inclined to make a formal and serious commitment to the program because the reimbursement is tied to a minimum service requirement. Third, the reimbursement and commitment to Tax-Aide means that volunteers are more likely to continue their services. This provides greater continuity as well as more experienced preparers. The typical volunteer counselor now has an average of three years' service in the program

Finally, the program provides a psychological benefit for older volunteers. This is difficult to measure, but it is real and important. Many older Americans are frustrated when they reach retirement age because they do not know what to do [illegible] all their leisure time. Volunteer programs, such as TCE can offer an opportunity to engage in purposeful activity without imposing a heavy demand throughout the year. Older volunteers have emphasized repeatedly that some of their most fulfilling moments are serving others in their communities. This feeling is prevalent among Tax-Aide volunteers because 90 percent express a willingness to serve in the next tax season.

D. Conclusion

TCE has worked extraordinarily well for our Nation, the IRS, older and younger taxpayers, the volunteers, and others. With a modest amount of funding, this program has yielded great dividends by:

- -- reducing the IRS workload and cost in staffing service sites;
- -- improving taxpayer compliance and accuracy;
- -- providing specialized services to groups traditionally underserved by IRS, such as the homebound, the rural aged, and minorities; and
- -- providing an opportunity for older Americans to make a valuable contribution to society.

The need for the TCE program is crucial. The Associations recommend that the program be funded at $1 million in fiscal year 1983. This is the same amount as appropriated in fiscal year 1981 and also approved by the Senate Appropriations Committee to support this modest funding level to continue the TCE program.

H&R Block, Inc.
1701 K Street N.W.
Washington, D.C. 20006
(202) 775-0630

A. James Golato
Corporate Director of Public Affairs

APR 1 '82

March 31, 1982

Honorable William S. Cohen
Dirksen Senate Office Building
Room 1251, Attention: Jeff Minsky
Washington, D.C. 20510

Dear Mr. Minsky:

I'm sorry I did not have an opportunity to testify, as I hoped to, at the March 24 hearing of the Oversight of Government Management Subcommittee of the Senate Governmental Affairs Committee about the proposed reductions in IRS taxpayer assistance.

As a former IRS official, I agree with former Commissioners Donald C. Alexander and Jerome Kurtz that our government has a responsibility to help taxpayers meet their tax responsibilities. But there is an alternative to government employees giving that help.

The alternative is for the law to provide the same tax assistance benefit to those who do not itemize deductions (usually lower income taxpayers and those who are least able to understand the complex tax law) as that provided to higher income itemizing taxpayers. The law should provide for an "above the line" deduction or a tax credit for tax form preparation fees so that all taxpayers may have equal access to competent tax preparation assistance.

Our detailed proposal is enclosed. We request that it be made a part of the official record of the March 24 hearing referred to above. And I urge Senator Cohen to give this proposal early consideration.

I am available to discuss the proposal in greater detail.

Sincerely,

Al Golato

Al James Golato

AJG:cvk
Encl. (1)

Legislative Proposal To Grant Lower Income Taxpayers A Small Tax Credit for Income Tax Return Preparation Fees

In recent yeras, the Congress has recognized that merely providing an itemized deduction for a particular expense does not in and of itself result in fair or equal treatment for all taxpayers. Thus, in the Tax Reform Act of 1976, the Congress eliminated itemized deductions for child care expenses and alimony payments and replaced them with a tax credit for child care expenses and a nonitemized deduction for alimony payments. In the Revenue Act of 1978, the Congress eliminated itemized deductions for political contributions and increased the tax credit for political contributions. Most recently, in the Economic Recovery Tax Act of 1981, the Congress provided for a deduction for charitable expenses without the requirement of itemization. Under the same law, the new deduction for two-earner married couples is a nonitemized deduction.

It is submitted that such a policy, which has resulted in benefits to millions of taxpayers, should now be extended to rectify a glaring inequity, namely, the unavailability of a tax credit or nonitemized deduction for the expenses incurred in the preparation of income tax returns, a benefit that has been available for many years to those taxpayers who have filed returns claiming itemized deductions.

Such a tax credit is now urged and further any expenses incurred for such fees over the amount of the credit should be deductible.

It is by now universally recognized that it is vital to the health of the income tax system that it be perceived to the extent possible by all taxpayers, those with smaller incomes as well as those with larger incomes and those who understand the ever-more-complex law and those who don't understand it, as a system which has the fundamental objective of fairness and evenhanded treatment of all taxpayers. And so it is unjust and at times incomprehensible to the taxpayer who files the Short Form 1040A or who does not itemize deductions on the Form 1040 not to be able to take a credit for the expenses incurred in having his or her return prepared by outside or professional preparers.

Quite aside from the inequity of the situation, practical advantages to the Government should result from an amendment to the Internal Revenue Code providing for such a benefit. Some, but not all, of the advantages would seem to be as follows:

1. Public confidence in the tax system would increase, especially on the part of the lower income taxpayers who do not understand the law and who are concerned with obtaining reliable advice. In any event, the Service is regarded by many of these taxpayers warily or primarily as an enforcement agency and to them information received from the Service is suspect at all times. The only real choice for many taxpayers is a tax return preparer.

2. Assistance from qualified tax return preparers will help insure the preparation and filing of returns that generally are and should continue to be more accurate than those prepared by taxpayers themselves. A credit or a nonitemized deduction will encourage taxpayers to seek assistance from qualified preparers which should improve accuracy and thus the functioning of the entire system.

3. The Government now recognizes the difficulties and high costs of administering its own tax assistance program and is eliminating much of that program. The provision for the new credit should encourage taxpayers to seek private sector assistance in lieu of visiting or telephoning offices of the Internal Revenue Services. This should help reduce the Internal Revenue Service taxpayer assistance budget and make more resources available for compliance, audit, collection and enforcement activities and for tax return processing work.

4. The amendment should help reduce some of the costs of printing and distribution of forms since many private sector preparers do not utilize Government forms. Unless requested by the tax preparer there would be no need to distribute the forms. A number of states have already recognized the potential savings in this area and adopted such a practice.

5. Such a credit and the subsequent encouragement to taxpayers to use qualified tax return preparers should have the additional result of more peace of mind to taxpayers that they have not under- or over-reported their tax obligations and that if and when audited they would be accompanied by a qualified individual with supporting data.

6. The efficacy of the American tax system is dependent to a great extent on voluntary compliance. Such voluntary compliance would be enhanced as a result of the adoption of this benefit and this means more revenue at less cost.

Summary

Public policy reflected in the Internal Revenue Code for many years is intended to encourage the use of paid tax preparation assistance for itemizing taxpayers who are usually higher income taxpayers. The tax savings from such a policy until this year was worth as much as 70% of the fees paid to preparers and will still be worth as much as 50% under current law.

That public policy should be applicable to all taxpayers. It may even be agreed that from a national standpoint it is even more important to have the policy apply to lower income taxpayers since they are frequently the ones who find it difficult to understand tax laws, are uncertain about deductions and exemptions, are unable to deal with the forms themselves and can least afford to pay for tax preparation help. According to some, there are 38 million individuals filing forms 1040A and numerous others who do not itemize deductions. They deserve the same benefit and incentive to seek competent tax preparation assistance from the private sector as the itemizing taxpayer.

Such equal access to tax preparation assistance for all taxpayers would be best achieved by a tax credit or an "above the line" deduction for income tax preparation fees.

Statement of

VINCENT L. CONNERY

National President

and

JERRY D. KLEPNER

Director of Legislation

National Treasury Employees Union

to the

Subcommittee on Oversight of Government Management

of the

Committee on Governmental Affairs

HON. WILLIAM COHEN

Chairman

Administration Budget Request for Taxpayer Service

U.S. Senate

Washington, D.C.

April 23, 1982

I am Vincent L. Connery, National President of the National Treasury Employees Union. With me is Jerry D. Klepner, NTEU's Director of Legislation. Our union is the exclusive representative of over 120,000 Federal workers, including virtually all employees of the Internal Revenue Service.

We commend the Subcommittee for holding these timely hearings on the Administration's Fiscal Year (FY) 1983 proposals concerning the Taxpayer Service Division of the IRS. We believe that the President's plan to reduce Taxpayer Service drastically is grossly unfair to the American public.

For years, we have argued that the fair enforcement of our tax laws and the preservation of our system of voluntary compliance would be greatly enhanced by the allocation of additional resources to the IRS. Only by providing the Service with sufficient funding and personnel to carry out its important mission can the government assure taxpayers of adequate service, pursue delinquent accounts properly, collect the millions of dollars that currently go unpaid through fraud and abusive tax shelters and reduce the size and scope of the burgeoning underground economy.

The Administration, in its FY 1983 budget proposals, has only partially addressed these problems. While recommending that the Examination and Collection Divisions be granted additional funding in order to foster an increase in revenue collected, the President is seeking to cut Taxpayer Service by 2,200 positions below FY 1981 levels.

We firmly support the allocation of greater resources to the Examination and Collection Divisions. Such funding is absolutely essential if we are to protect our tax system against untold abuses. The Administration's proposal to slash the Taxpayer Service Division, however, is extremely short sighted. While fostering the principle of voluntary compliance on one hand, the President is undermining the very same concept with the other.

Our voluntary compliance system depends upon each citizen's understanding the tax law and assessing his/her own tax. The return has become more complicated and difficult to understand as the law has become more complex. This problem was highlighted by a "reading power" study of 1974 individual income tax forms and instructions funded by the former Department of Health, Education and Welfare. The study concluded that a taxpayer would have to read at the college graduate level to be able to understand the tax instructions without assistance.

Taxpayer Service has evolved in response to the need for tax assistance, as recognized long ago by Congress, the public demand for such assistance, and the basic tenet that taxpayer assistance fosters voluntary compliance. The Federal government has a responsibility to provide this assistance as an essential ingredient in the administration of the tax laws. The Reagan Administration's proposal would reduce the number of taxpayers assisted to 17.9 million in FY 1983, compared to 44.8 million in FY 1981 -- a reduction of 60 percent. Only 34 out of 100 taxpayers requesting assistance would be helped in FY 1983, compared to 89 out of 100 in FY 1981.

The situation is depicted graphically in our attached chart. The number of taxpayers requesting assistance is a conservative estimate based upon IRS studies of demand for taxpayer services. While this number rises gradually to 52.7 million in FY 1983, the number actually assisted peaks in FY 1981 and then falls sharply due to the Administration's budget cuts.

The IRS has confirmed that the Administration's drastic cuts will cause it to completely re-structure the Taxpayer Service program in FY 1983.

Toll-Free Telephone Assistance.

IRS has traditionally relied upon toll-free telephone assistance as the most efficient means of responding to taxpayers' questions. In FY 1982, approximately 82 percent of the taxpayer assistance workload will be handled by telephone. IRS expects to receive a total of 34 million calls, of which an estimated 27 million will involve tax law questions.

In 1979, IRS estimated that 81 percent of taxpayers who sought assistance actually reached an IRS employee. By contrast, only 70 percent of taxpayers attempting to contact IRS by telephone got through to an individual in 1981. According to a survey by GAO this year, for each 100 telephone calls made to IRS, only 72 result in contact with an IRS assistor who correctly answers a question. The remaining 28 calls either do not get answered, get cut off, or result in erroneous answers. GAO also found that taxpayers are able to reach IRS on their first call only 61 percent of the time. Taxpayers who are willing to make multiple calls have an 86 percent chance of reaching an assistor within a total of five calls.

It is clear from this data that the timeliness and availability of toll-free telephone service has seriously deteriorated. The system is in need of much improvement. However, the Administration's response has been to propose virtual elimination of toll-free telephone assistance in FY 1983, limiting such services to answering account questions only (e.g. status of refund and amount owed). Tax law questions, which accounted for 27 million inquiries last year, would no longer be answered. Taxpayers would be expected to find the answer themselves in an IRS publication. As a result, only 12.6 million calls would be answered in FY 1983, compared to 36 million in FY 1981.

An IRS study has found that 38 percent of the taxpayers who contact

IRS by telephone have adjusted gross incomes of $15,000 or less. About 11 million taxpayers who had tax law questions fell into this category in FY 1981. These taxpayers, who would have more difficulty understanding an IRS publication and would have less financial ability to turn to a commercial preparer, would probably go unserved if toll-free telephone assistance were curtailed as the Administration proposes.

Such a severe cut could also be expected to impact adversely upon voluntary compliance. In an October 29, 1981 memorandum to the Deputy Secretary of the Treasury, the Commissioner of Internal Revenues stated that if IRS did not provide answers to tax law questions, "large numbers of taxpayers can be expected to interpret the law in a way favorable to themselves, with little likelihood of detection", and "a significant decline in voluntary compliance and a concurrent decline in revenues may result."

Walk-In Assistance

IRS plans to absorb the FY 1983 reduction in Taxpayer Service resources mainly through curtailment of toll-free telephone assistance so that walk-in assistance can be maintained. However, the number of walk-in offices and some walk-in assistance activities will be curtailed. As a result, the number of taxpayers obtaining such help will drop from 8.7 million in FY 1981 to 5.2 million in FY 1983, a reduction of 40 percent.

In FY 1982, walk-in assistance will account for 18 percent of the taxpayer service workload, or 7 million contacts. IRS studies have found that 61 percent of taxpayers receiving walk-in assistance have adjusted gross incomes of $15,000 or less. About 98 percent of the 2.6 million taxpayers (out of 8.7 million walk-in contacts) requiring return preparation assistance in FY 1981 had adjusted gross incomes of $15,000 or less.

Walk-in assistance includes helping taxpayers prepare their own tax returns (self-help return preparation), preparing tax returns for taxpayers (direct return preparation), reviewing returns prepared by taxpayers (return review) explaining correspondence sent by IRS to taxpayers, and answering tax law questions.

In the area of return preparation, IRS assisted 2 million taxpayers through self-help preparation, 344,000 through return review, and 175,000 through direct return preparation and return review assistance, except for physically handicapped persons and taxpayers who demonstrate an inability to use self-help.

IRS has also significantly reduced the number of walk-in offices. In FY 1982 it had 615 walk-in offices compared to 829 in FY 1981, a 26 percent reduction. The closing of walk-in offices, coupled with the curtailment of return preparation assistance, will impact mostly on those with low incomes -- the poor, the young, and the elderly. Rural areas will also find access to walk-in service reduced, at the same time that toll-free telephone assistance is being curtailed.

The Service is running a major risk in endeavoring to maintain walk-in programs while eliminating telephone assistance for 27 million taxpayers. A large number of these taxpayers may decide to seek help from the nearest walk-in office, resulting in inordinately long waiting lines. As the lines lengthen and taxpayers become exasperated, IRS employees will be subjected to verbal and possibly even physical abuse. We cannot think of anything that could injure employee morale, or turn the taxpayers against the system, more than the unwillingness of the Federal government to project a friendly, helping image to the citizens of this country.

The cutback in taxpayer assistance will have a serious negative impact on voluntary compliance. Coming at a time of increased evidence of doubts about the fairness of the system, it could deal a psychological blow to the taxpaying public from which we might not recover. The willingness of taxpayers to correctly assess their tax, as well as their ability to do so through correct understanding of the tax laws, will be undermined if taxpayer assistance is curtailed.

It is especially important that the habit of compliance be fostered in our young people. How can this be achieved if their efforts to obtain assistance are to no avail?

It could be argued that a large proportion of those who come to the IRS for assistance are in lower income groups, and do not account for much revenue in the first place. This would be a false logic. It is not in the nation's interest for any substantial group of citizens to become disaffected with so vital an institution as our tax system.

The Commissioner states that IRS will emphasize its volunteer assistance programs in order to partially offset the decline in service from IRS employees. Significantly, the Commissioner makes no claim that these programs -- the Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs -- could fill the gap, for they in no way would be able to do so. While these are worthy programs with worthy goals (assisting the elderly, handicapped, minorities, and those with language difficulties), the two programs together assisted only 372,000 taxpayers in FY 1981. This is far less than the 34 million taxpayers who will be unable to obtain assistance in FY 1983 under the Administration's budget.

IRS also believes that taxpayers can find answers to their questions from the Service's many publications. Yet, a 1977 study by the Roper Organization found that half of those who went to a professional preparer for assistance did so because the IRS forms and instructions were too difficult to understand. In a 1978 study, GAO also concluded that Form 1040 packages were written at a reading level beyond that of many taxpayers. GAO also noted that educational data on the elderly and disadvantaged indicates that they may have more severe problems in reading and understanding the 1040 instructions than taxpayers in general.

IRS is by no means certain that a reduction in Taxpayer Service will yield a saving for the government. The reduction may rebound in the form of higher costs in other parts of the IRS budget -- costs of correcting errors and of obtaining returns of non-filers. GAO is of this opinion. It states:

> "But it is also possible that some taxpayers may or may not file returns containing inadvertent errors or errors resulting from personally favorable tax law interpretations. IRS, therefore, could conceivably face a situation where return perfection and collection costs exceed comparable prefiling assistance costs."

By using the toll-free telephone system solely to answer questions on taxpayer's accounts, IRS is saying that it will answer questions only after a return has been filed. Yet 82 percent of the calls it now receives are questions about tax laws and return preparation -- precisely those questions that will not be answered next year. Given this situation, errors on returns are bound to rise significantly and entail significant loss of revenue.

It can be safely predicted that the taxpayers of this country are not likely to take this new dose of Reaganomics lying down. Assuredly, many will turn their ire upon the Congress. Unfortunately, IRS employees will also have to confront these irate citizens and explain why their government will no longer meet its tax responsibilities.

Last year, Commissioner Egger told the American Bar Association:

> "I think it is very important that we show compassion for the honest taxpayer, who must cope with a tax system so complex that it sometimes stymies the professionals."

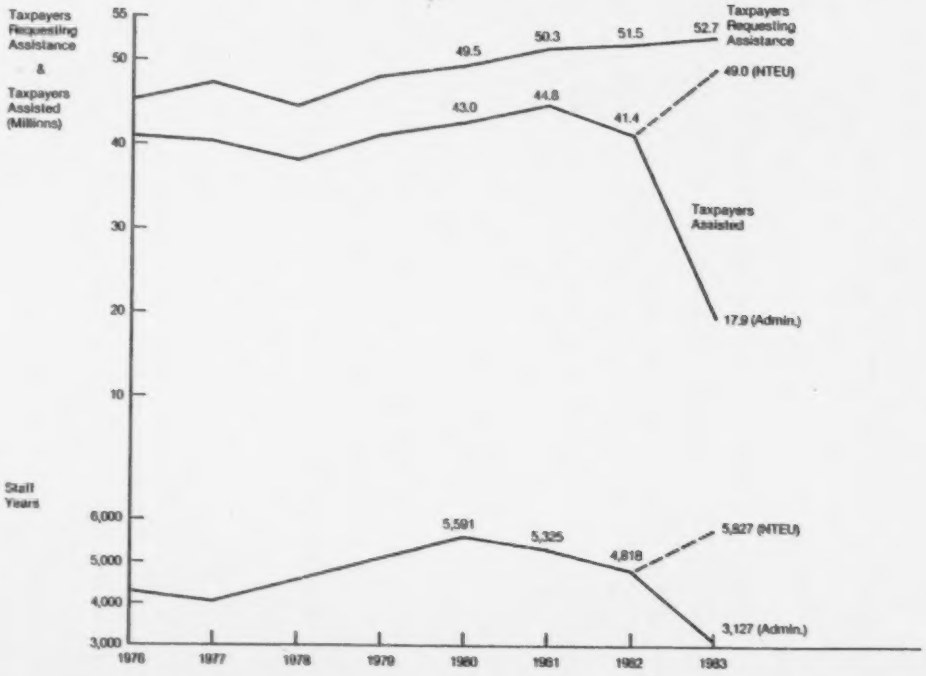
We agree with this view, and believe that Congress should act to prevent the wholesale dismantling of an important bulwark of our tax system. To do less would be to ignore more than a decade of clean Congressional concern that the taxpayers of this country deserve, it requested, the assistance of our Federal government in fulfilling their tax obligations.

To remedy this situation, we will propose to the Appropriations Committees in both houses of Congress an alternative budget that would provide 5,827 staff-years and $292 million for Taxpayer Service, an increase of 2,700 staff-years and $96 million over the Administration's budget request. Our proposal would enable 49 million taxpayers, or 90 percent of those requesting assistance, to be served. The impact of our proposal is shown graphically in our attached chart.

We urge the Subcommittee to give careful consideration to our alternative budget proposals for the Taxpayer Service Division and to do all in its power to assure that the taxpayers of this nation receive fair treatment. This concludes our statement; we will be glad to provide any further assistance or answer any questions the Subcommittee may have.

Taxpayer Service Workload and Resources

FY 1976-1983



Source: IRS Budget Submissions and Studies

CTA Community Tax Aid, Inc.

Please reply to: ☐ Box 1040, Cathedral Station
New York City 10025
☒ 36 West 44 Street, Room 1201
New York City 10036
writer's phone number:
212/935-9210

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22 April 1982

APR [illegible] '82

APR 26 '82

Senator William S. Cohen, Chairman
Subcommittee on Oversight of Government Management
Committee on Governmental Affairs
U.S. Senate
Washington, DC 20510

Save the IRS Taxpayer Service Division

Dear Senator Cohen:

One point that seems to be missing from all those given in support of IRS taxpayer assistance is that the taxpayers who use it most are, in effect, directly paying the bill. This is because the vast majority of taxpayers get refunds, and the government has had the use of those refund dollars at no interest. The amounts are embarrassingly large.

Add this to the many valid reasons given by the witnesses at your subcommittee's hearings and any cut in service becomes absolutely unjustifiable. Any cut would be a breach of faith with the U.S. taxpayer.

The past decade has seen IRS taxpayer service develop from a suspect arm of Collection to a separate division with a small but credible force of career professionals whose mission is to help. As much as the underground economy needs to be dragged into the system, and as much as delinquents must be pursued, the millions of honest but confused taxpayers need and deserve help from within the system. This is what IRS taxpayer service is all about.

The answer is not in volunteer programs, most of which are as inadequate and unprofssional as commercial services. The answer, until you folks in Congress can figure out how to simplify our tax laws, is IRS taxpayer service. To deny this help can only debilitate and then destroy our already shaky self-assessment system.

Please do not allow a single dollar to be cut from taxpayer service. Restore the IRS Taxpayer Service Division to full strength.

Sincerely,

Jeffrey S. Gold
Chairman

CCs: President Ronald Reagan; Senators Ted Stevens, Warren S. Rudman, Carl Levin, David Pryor, William V. Roth, Thomas F. Eagleton, Daniel P. Moynihan, Alfonse D'Amato, Robert Dole, Russell Long and Max Baucus; Susan M. Collins; Deborah H. Schenk.

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AMERICAN COUNCIL OF THE BLIND

1211 Connecticut Avenue, N.W. • Suite 506 • Washington, D.C. 20036-2775
Telephone: (202) 833-1251

Barbara Nelson, J.D.
Staff Attorney

Laura R. Oftedahl
Director of Public Affairs

J. Scott Marshall, J.D.
Director of
Governmental Affairs

NATIONAL REPRESENTATIVE
Oral O. Miller, J.D.

PRESIDENT
Grant Mack
139 East South Temple
Suite 5000
Salt Lake City, Utah 84111

FIRST VICE PRESIDENT
Otis Stephens, Ph.D.
2021 Kemper Lane, S.W.
Knoxville, Tennessee 37920

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Robert T. McLean, Ph.D.
P.O. Box 237
Dept. of Mathematical Sciences
Loyola University
New Orleans, LA 70118

SECRETARY
Karen Perzentka
6913 Colony Drive
Madison, Wisconsin 53717

TREASURER
James Olsen, C.P.A.
310 Fourth Avenue, South
Suite 822
Minneapolis, MN 55415

DIRECTORS

Delbert K. Aman, J.D.
115 Fifth Avenue, S.E.
Aberdeen, SD 57401

Robert Campbell
253 Stonewall Road
Berkeley, CA 94705

Adrian De Blasy
912 N. Hawley Road
Milwaukee, WI 53213

Christopher Gray
1104 N. Stafford Street
Arlington, VA 22201

Charles Hodge, J.D.
2895 S. Abingdon Street
Unit A-2
Arlington, VA 22206

Carl F. McCoy
Apt. D-7
925 E. Magnolia Drive
Tallahassee, FL 32301

Patricia Price
337 South Sherman Drive
Indianapolis, IN 46201

LeRoy Saunders
P.O. Box 24020
Oklahoma City, OK 73124

Mary Jane Schmitt
528 Des Plaines Avenue
Apt. 2A
Forest Park, IL 60130

Dick Seifert
1023 Scott Street
Apt. F
Little Rock, AR 72202

Braille Forum
Mary T. Ballard, Editor
190 Lattimore Road
Rochester, NY 14620

March 25, 1982

MAR 3 '82

Honorable William Cohen
U.S. Senate
Washington, D.C. 20510

Re: Oversight Hearing on Taxpayer Assistance

Dear Senator Cohen:

On behalf of the American Council of the Blind, please allow me to commend you on your handling of the March 24th Oversight Hearing on Taxpayer Assistance held by the Subcommittee on Oversight of Government Management of the Senate Governmental Affairs Committee.

The American Council of the Blind is a national membership organization of blind and visually impaired people. Many of our members are employed by the Internal Revenue Service as taxpayer service representatives and taxpayer service specialists.

Since 1968, the IRS has hired blind persons trained at the Arkansas Enterprises for the Blind to handle telephone inquiries. The IRS currently provides braille materials to its blind telephone representatives which makes it possible for these employees to independently perform their jobs without substantial need for sighted reading assistance.

We believe that if the telephone service is eliminated by the IRS, many blind employees will either lose their jobs or will be transferred to other divisions of IRS. A transfer to the Audit Division, for example, may be difficult for some blind employees unless the IRS is willing to provide the necessary backup help (such as reading assistance) to enable its displaced blind employees to effectively perform within the Audit Division.

Honorable William Cohen
March 25, 1982
Page Two

The IRS telephone program has been a worthwhile employment opportunity for many blind people and has also enabled many blind persons to progress to management levels within the IRS. If the telephone program is eliminated, we hope that you and your colleagues in Congress will help us insure that blind employees of the IRS will not be adversely affected. One hundred and fifty blind IRS employees and many others now in training want to work and are counting on the Congress to insure that the already limited employment opportunities for the blind in this country are not further reduced by budget cuts in the IRS.

We would greatly appreciate having our comments included in the printed record of the hearing. If you would like to speak with us about this matter further, please do not hesitate to contact me.

Very truly yours,

J. Scott Marshall, J.D.
Director of Governmental Affairs

JSM:jv
Enc.
cc: George A. Roderick, President
Maine Fraternal Association of the Blind

Manual Transmittal

Department of the Treasury

Internal Revenue Service

1218–123

October 1, 1981

Purpose

This transmits a revised statement of Service policy for IRM 1218, Policies of the Internal Revenue Service, which was approved by the Commissioner on August 13, 1981.

Nature of Changes

Policy statement P–6–30 is revised, and combined with policy statement P–6–31, to restrict Service return preparation assistance to the self-help method of assistance and limited to Forms 1040A and 1040 without business schedules (C and F). The only exception will be for taxpayers who are physically handicapped or who have demonstrated an inability to use self-help.

Policy statement P–6–31 is deleted.

/s/Albert C. Shuckra
Director,
Internal Management Documents Division

Filing Instructions

Remove:	*Insert:*
1218–1	1218–1
1218–87	1218–87

GENERAL

P-6-1 *(Approved 11-4-77)*
Service commitment to Taxpayer Service Program

The Service is committed to a Taxpayer Service Program which will help taxpayers voluntarily comply with tax laws and assist them in meeting their obligations under the tax laws. The resource requirements needed to fulfill this commitment will be given the same level of consideration as requirements for other major Service Programs.

P-6-2 *(Approved 11-4-77)*
Taxpayer Service considered in Program review

Assuring that the Service is responsive to taxpayers' needs is a responsibility of all Service officials and employees and will be considered in reviewing the performance of all Service programs and offices.

(P-6-3—P-6-9 are reserved)

STANDARDS IN PUBLIC DEALINGS AND TAX ADMINISTRATION

P-6-10 *(Approved 11-26-79)*
The public impact of clarity, consistency, and impartiality in dealing with tax problems must be given high priority.

In dealing with the taxpaying public, Service officials and employees will explain the position of the Service clearly and take action in a way that will enhance voluntary compliance. If a taxpayer problem has been caused by a Service error, the mistake will be acknowledged and an apology given to the taxpayer. Internal Revenue Service officials and employees must bear in mind that the public impact of their official actions can have an effect on respect for tax law and on voluntary compliance far beyond the limits of a particular case or issue.

P-6-11 *(Approved 11-4-77)*
Administrative procedures and forms will be designed to promote voluntary compliance

Recognizing the importance of voluntary compliance on the part of taxpayers to the efficient operation of the tax system, specific attention will be given by Service officials to isolating and defining problems in tax administration which might adversely affect voluntary compliance.

Service officials will take positive action to critically examine the Service's forms, procedures and administrative practices and ensure they are designed to provide for sound administration of the law and effective use of resources. Simultaneously, Service officials will ensure that the effects upon taxpayers of these forms, procedures, and administrative practices are considered.

(P-6-12—P-6-19 are reserved)

TAX INFORMATION AND EDUCATION PROGRAMS

P-6-20 *(Approved 11-4-77)*
Information provided taxpayers on the application of the tax law

The Service will develop and conduct effective programs to make available to all taxpayers comprehensive, accurate, and timely information on the requirements of tax law and regulations.

Positive efforts will be made to determine taxpayers' needs and to effectively meet these needs. Information will be provided through a variety of means, including telephone and office assistance programs, mass media and taxpayer publications.

P-6-21 *(Approved 11-4-77)*
Educational programs provided

The Service will conduct taxpayer education programs for taxpayers whose needs for tax information are most effectively met by these means.

These educational programs will include those established to assist individuals in meeting their current and future tax obligations, as well as programs designed to instruct groups of taxpayers or prospective taxpayers on their rights and responsibilities under the tax law or on specific tax provisions of common interest.

(P-6-22—P-6-29 are reserved)

RETURNS PREPARATION ASSISTANCE

P-6-30 *(Approved 8-13-81)*
Service preparation of returns will emphasize self-help methods

Information and guidance on tax law and regulations, as well as self-help assistance in the preparation of some tax returns, will be provided for each taxpayer who communicates with our offices seeking such services. Taxpayers are encouraged to prepare their own Federal tax returns whenever possible. The self-help method of assistance by Service personnel will be limited to Forms 1040A and 1040 without business schedules (C and F) in order to conserve limited IRS resources.

The Service will prepare returns only if in the opinion of Service personnel a taxpayer is unable to be assisted through self-help methods due to a physical handicap or when an individual has demonstrated an inability to use the self-help concept.

(P-6-31—P-6-39 are reserved)

ACCOUNT INFORMATION AND CORRECTION

P-6-40 *(Approved 11-4-77)*

Assistance furnished to taxpayers in the correction of accounts

Service officials and employees will act objectively and expeditiously to correct errors and discrepancies in taxpayers' accounts. Corrections which will result in a benefit to the taxpayer will be handled as expeditiously as those which will benefit the Government. Service officials and employees dealing with the matter will take every action possible to correct the problem and will assist the taxpayer to the fullest extent possible to understand and to take whatever action is required of him/her.

(P-6-41—P-6-49 are reserved)

ADDITIONAL DUTIES

P-6-50 *(Approved 11-4-77)*

Taxpayer Service personnel duties

Taxpayer Service function personnel will not be assigned inventories of TDA's, TDI's, or returns for examination, or perform enforcement duties, such as serving summonses or levies and participating in conducting seizures. When such personnel have time available from their primary function they are expected to perform duties in support of other district office activities, such as telephone contact on RCP leads, following up on TDI's, and office processing work.

6210 *(12-3-80)*
In General

(1) It is the goal of the Internal Revenue Service to encourage and achieve the highest possible degree of voluntary compliance with tax laws and regulations, and to maintain the highest possible degree of public confidence in the integrity and efficiency of the Service. Taxpayer Service has a major role to play in making this mission reality. This role includes both communicating the requirements of law and providing actual assistance to the public.

(2) In carrying out this responsibility, Taxpayer Service should:

(a) determine taxpayer needs;

(b) develop programs which meet those needs through direct services; and

(c) disseminate comprehensive, accurate, and timely information on these programs and tax law requirements as well.

(3) With the known complexities of the Internal Revenue Code, another behest of Taxpayer Service is to convey interpretations of the tax code to the public. Such information normally given over the telephone, face to face, or in correspondence can, of course, be provided through several other means as well—including mass media, taxpayer publications, and specially designed programs, such as Understanding Taxes, Volunteer Income Tax Assistance, and tax institutes.

(4) Service will be provided over the telephone, through correspondence, and to taxpayers who personally visit IRS offices.

(5) If a taxpayer or his representative requests that an oral response for tax information be furnished in writing, the individual will be asked to put the request in writing, detailing the pertinent information. This will enable the Service to ensure that all issues have been adequately considered and responded to.

6220 *(2-24-82)*
Service Concepts

[Supplemented by MS 6G-116 (Rev. 1)

6221 *(6-27-79)*
Telephone Services

(1) Consideration should be given to placing special emphasis on encouraging taxpayers to make full use of the telephone, which has proven to be the most effective and economical method of assisting large numbers of taxpayers.

(2) It is the desire of the Service to answer as much of the total demand for telephone tax assistance as is possible with the staff and communications resources available.

(3) It is preferable in cases where call demand exceeds available staff capacity to have callers receive busy signals rather than wait in queue for a prolonged period of time.

(4) Circuitry and staff planning for answering sites should be developed in accordance with the guidelines in IRM 6560, Manager's Handbook for a Toll-Free Telephone System.

(5) An ASA (Average Speed of Answer) range of 20-40 seconds (with probable abandoned call rate of 5%) has been determined to be cost effective for the great majority of sites. In the interest of providing consistent service to all callers regardless of their geographic location, all answering sites circuitry and staff plans will utilize 30 seconds as the ASA component.

6222 *(10-27-81)*
Walk-In Services

(1) Taxpayers seeking IRS help in understanding their tax obligations should be encouraged to do their own research and prepare their own tax returns so far as possible since this method is mutually beneficial to both IRS and the public.

(2) The self-help or taxpayer participation method of return preparation will normally be the sole method of return preparation assistance in the walk-in area. The Service will prepare returns only if in the opinion of Service personnel a taxpayer is unable to be assisted through self-help methods due to a physical handicap or when an individual has demonstrated an inability to use the self-help concept.

(3) The self-help method of assistance by Service personnel will be limited to Forms 1040A and 1040 without business schedules (C and F) in order to conserve limited IRS resources.

6230 *(9-19-80)*
Program Objectives and Scope

6231 *(6-27-79)*
Objectives

(1) The primary objective of Taxpayer Service is to make a maximum contribution to the Service's mission of promoting voluntary compliance with Federal tax law on the part of all taxpayers. It is the responsibility of Taxpayer Service to provide information, guidance and assistance to taxpayers who write, telephone or visit an IRS office inquiring about Federal tax obligations.

(2) To measure the success of attaining this objective, the Zero-Base Budgeting Objectives Tracking System was developed. This selects

key, high-level budget objectives and tracks them quarterly in a quantitative and tangible manner. Reports are prepared by the National Office and submitted to the Treasury Department.

(3) In support of the primary program objective the following are continuing Taxpayer Service objectives.

(a) to conduct outreach programs for taxpayers who are unable to contact IRS or who have difficulty contacting IRS, particularly inner city, low income, handicapped and elderly taxpayers.

(b) to make taxpayer assistance more convenient and accessible for the public; and

(c) to improve the qualify of all service.

(4) Since Special Emphasis Programs are geared to current identified needs, Manual Supplements and/or Documents will be issued, as required, to cover appropriate program direction. Local situations requiring special service (e.g., disasters or other economic upheavals) should be communicated to the Chief, Field Programs Branch, Taxpayer Service Division (TX:T:F) in the National Office.

(5) Other broad objectives deserving continued management attention are;

(a) to improve recruiting and training methods in order to promote effective use of resources, especially technical staffing;

(b) to evaluate and modify both walk-in facilities and toll-free telephone systems so as to provide functional and effective facilities for assisting taxpayers; and

(c) to analyze ongoing operations (e.g., correspondence, direct assistance) and equipment in order to keep methods, and procedures consistent with changing trends.

6232 *(10-27-81)*
Scope

(1) Included in the scope of the program are: year round services to individual taxpayers who visit, telephone or write IRS seeking information or service with respect to federal taxes; accurate responses to general, technical and account type inquiries from taxpayers; and necessary file documentation during discussions with taxpayers involving corrective action. Specifically, the various types of services include the following:

(a) answering inquiries and helping taxpayers in their preparation of tax returns involving Federal taxes through self-help methods; and

(b) answering walk-in or telephone inquiries and helping taxpayers (including preparation of forms through self-help methods when necessary) with respect to:

1 the proper application of tax laws, regulations, procedures, etc.,

2 initiation of requests for adjustment actions on all types of returns and notices;

3 service-initiated requests for information, internal-use forms and questionnaires requested by any activity of the Service (except where it is known or can be ascertained that taxpayers are under investigation or returns are under examination);

4 claims for refund, credit, or abatement;

5 tax responsibilities of new businesses (Your Business Tax Kit);

6 questioned accuracy of refund checks, error notices, or bills;

7 alleged nonreceipt of refund checks or uncashable refund checks;

8 preparation of requests for copies of returns, schedules, account transcripts, etc.;

9 service rendered departing aliens; and

10 correspondence requiring Taxpayer Service response.

(2) The types of services not included are as follows:

(a) service furnished in connection with assigned cases;

(b) actions on Taxpayer Delinquent Accounts (TDA's);

(c) handling inquiries on pension trust and exempt organizations requiring consideration of proposed plan, application for exemption, or revisions to plans previously approved or rulings previously issued; and

(d) bulk distribution of forms and publications.

6240 *(4-11-79)*
Taxpayer Relations

6241 *(9-19-80)*
Developing Good Taxpayer Relations

(1) The Taxpayer Service Division has an added responsibility—that of maintaining good taxpayer relations through a comprehensive servicewide Taxpayer Service Program which recognizes that taxpayers must have the ability as well as the willingness to comply with Federal tax law.

(2) The Division will ensure that prompt, accurate and responsive replies are made to taxpayer inquiries including technical, procedural and policy inquiries. Full responsiveness includes arranging for call-backs or referrals to areas or activities able to respond to the inquiry as well as resolving account discrepancies for taxpayers and their representatives.

(3) The Taxpayer Service Division, National Office, has primary responsibility for planning, developing, and seeing that the year-round Taxpayer Service Program is implemented. The Assistant Regional Commissioner (TX) is responsible for the program at the regional level. At service centers and districts the Service Center Director and District Director are responsible for the program and its implementation at their respective levels.

(4) The Chief, Taxpayer Service Division/Section has overall operational responsibility for conducting the year-round Taxpayer Service Program.

(5) By providing quality assistance to taxpayers, good taxpayer relations can be created and maintained. In dealing with the taxpaying public, Service officials and employees must bear in mind that their official actions can have an impact on respect for tax law and on voluntary compliance.

(6) Chapter 400 of IRM 6810, Taxpayer Service Handbook, contains an extensive discussion of techniques and considerations for use of Taxpayer Service personnel in maintaining good taxpayer relations in all phases of their work.

6242 *(4-11-79)*

Role of Taxpayer Service Employees

(1) Assistance personnel are Service employees especially recruited and trained to help taxpayers fulfill their Federal tax obligations. These employees explain to taxpayers the various filing and payment provisions of the Internal Revenue Code in terms taxpayers can understand.

(2) Assisters may provide information and data, describe alternatives, research and resolve account problems, prepare Federal tax returns and encourage taxpayers to take certain appropriate actions e.g., file timely or increase withholding.

(3) During the income tax filing period, details-in are used to support the program. Management is responsible for seeing that only those employees with previous experience in providing assistance are assigned to telephone duties. Guidelines on the priority order of details-in and other specific measures are issued separately each fiscal year. Operational procedures are in IRM 6810, Taxpayer Service Handbook.

6250 *(9-19-80)*

Taxpayer Education Programs

(1) Taxpayer Education Programs are a vital part of the Service's voluntary compliance function in administering the tax law. The various adult education, school, tax institute and volunteer assistance programs have proven their ability to reach a broad cross section of the taxpaying public and affect the quality of a large number of returns with a minimum investment of Service staffing resources.

(2) Continued emphasis on and participation in Taxpayer Education Programs is expected since Taxpayer Service has administrative responsibility for this program. Districts should place special emphasis on establishing and expanding programs which improve the capabilities of taxpayers in recognizing their tax obligations, and that assist volunteers and practitioners in tax return preparation. See IRM 6570, Taxpayer Education Handbook, for additional information on these programs.

6260 *(4-11-79)*

Availability of Assistance Services

6261 *(4-11-79)*

General

(1) Effective service to the public, within the scope of the Program, will be provided for taxpayers concerning their individual tax affairs. Our goal is effective service to the public at a minimum operating cost. Naturally, quality service, combined with a courteous and businesslike manner, will make a valuable contribution toward the Service's mission of improved voluntary compliance. This section contains suggestions and guidelines to help make an effective program.

(2) Mass information means—newspapers, radio, television, speeches, public announcements, etc.—can be fully utilized to disseminate information and help citizens fulfill their tax obligations. Effective use of these vehicles not only will help reduce direct inquiries and encourage

the public to prepare their tax returns by the self-help method, but will also provide more convenient service for the public. Coordination with Public Affairs and Facilities Management in these areas is extremely important to a successful Taxpayer Service Program.

(3) All employees involved in the assistance program should be able to provide toll-free telephone numbers, address locations of local taxpayer service areas and the hours of operation at each location in the district.

6262 *(4-11-79)*
Normal Service Hours

6262.1 *(4-11-79)*
Walk-In Service Hours

(1) Districts should provide full-time walk-in taxpayer assistance at all locations which have full-time Taxpayer Service personnel. For those offices which are not staffed with at least one full-time Taxpayer Service employee, certain days should be established and publicized for taxpayer assistance if needed. When such offices are closed, Publication 607, Federal Tax Information, is available for posting on doors and should be used to inform the public when and where help may be obtained.

(2) However, if employees qualified to provide service are in these offices on days other than "designated days," doors will be open to the public and telephones answered in order to help taxpayers who visit or call the office. If Service employees from other activities do provide tax assistance, their taxpayer assistance time should be charged as detail to Taxpayer Service.

6262.2 *(4-11-79)*
Telephone Service Hours

The hours of toll-free telephone service should be widely publicized and every effort should be made to encourage taxpayers to use the telephone as a means of service. Answering devices and night recordings should be used to specify the working hours. For instance, recorded messages could advise the taxpayer to call at a less busy time of the day or days.

6263 *(4-11-79)*
Extended Office Hours

(1) Extended office hours should be geared to local area taxpayer assistance needs. Districts should consider changes in duty hours and staggered hours or the use of overtime for the work force to accomplish extended hours. Factors to be considered in scheduling extended hours are:

(a) the district's historical experience;

(b) knowledge of current local needs; and

(c) availability of resources.

(2) Public announcements and broadcast "spots" informing the public of the types and times of services that are provided in the extended hours at the nearest site available to them must be coordinated with the Public Affairs Officer.

6264 *(9-19-80)*
Off-Site Locations and Services

(1) Over the past several years, major efforts have been made by the Service to use off-site locations to reach those taxpayers, in particular the elderly and low-income, who for one reason or another cannot come to an IRS office and do not have access to a telephone. In these instances, storefront locations near the people to be served and easily accessible by public transportation should be used whenever possible. Taxmobiles are another excellent method of providing service. Whichever method is used, it is extremely important to consider scheduling work hours in the evening and on weekends so that more of these people will be able to utilize IRS services.

(2) The use of volunteer assistors and onsite visits to shut-ins—prisons, nursing homes, retirement communities, etc.—should also be considered in making service available. IRM 6500 contains more information on extending service to the public.

6270 *(9-19-80)*
Overseas Service

(1) The Taxpayer Service Division in International Operations is responsible for planning and operation of the year-round taxpayer service program. The Division provides taxpayer services to U.S. citizens and aliens, including technical back-up to district office Taxpayer Service activities on foreign tax issues. Year-round taxpayers services are maintained in both the Washington headquarters office, and in Puerto Rico.

(2) In coordination with the Foreign Programs Division, the Division administers the Overseas Taxpayer Service Program in each of the Foreign Posts (and other locations abroad during the filing period). It prepares periodic reports of taxpayer service activity, evaluates the effectiveness of the Taxpayer Service Program, and recommends necessary changes to the Director of International Operations.

(3) Revenue Service Representatives are stationed at the following overseas posts.

(a) *Permanent Overseas Posts*

1 Bonn, Germany
U.S. Embassy
2 London, England
U.S. Embassy
3 Sydney, Australia
U.S. Consulate
4 Manila, Philippine Islands
U.S. Embassy
5 Caracas, Venezuela
U.S. Embassy
6 Mexico City
U.S. Embassy
7 Johannesburg, South Africa
U.S. Consulate
8 Ottawa, Canada
U.S. Embassy
(Sub-Post: Vancouver, Canada U.S. Consulate)
9 Singapore
U.S. Embassy
10 Paris, France
U.S. Embassy
11 Rome, Italy
U.S. Embassy
12 Tokyo, Japan
U.S. Embassy
13 Jidda, Saudi Arabia
U.S. Embassy
14 Sao Paulo, Brazil
U.S. Consulate
15 Nassau, Bahamas
U.S. Embassy

(4) Service employees are available to provide tax assistance at most of these posts from July through December also.

Taxpayer Information

[Supplemented by MS 6G-113 and MS 6G-114]

6310 *(10-13-81)* Introduction

6311 *(10-13-81)* Purpose

In recognition of the contribution that effective taxpayer information efforts can make toward achieving the primary Internal Revenue Service objective of securing maximum compliance with the Federal tax laws, this Chapter describes the organization, methods and procedures for the conduct of taxpayer information activities.

6312 *(10-13-81)* Definition and Scope of Function

Taxpayer information activities as described by this Chapter cover those activities which are designed to inform the public through mass and specialized media (such as the press, radio, and television) and other vehicles for disseminating information. These activities are generally of a routine nature. Taxpayer information activities involve close cooperation with all IRS functional areas, and dissemination of information pertaining to their operations through the mass and specialized media.

6320 *(10-13-81)* Program Planning and Taxpayer Information Materials

6321 *(10-13-81)* General Objectives

(1) An adequately informed public is vital toward securing maximum voluntary compliance. As a basic premise taxpayer information activities must be directed toward:

(a) widest possible dissemination of tax information in language that will increase public understanding of the laws, regulations and forms, and will assist taxpayers in meeting their obligations and knowing their rights.

(b) providing accurate and timely information about the Service and its activities so that the public will be informed on the manner in which the tax laws are administered.

6322 *(10-13-81)* Organization and Responsibilities

6322.1 *(10-13-81)* Taxpayer Service Division

This Division, under the direction of the Office of the Assistant Commissioner (Taxpayer Service and Returns Processing) has been assigned primary responsibility for the Internal Revenue Service taxpayer information function. In discharging this responsibility, the Division determines the Service's Taxpayer Information Programs, develops various modules and print materials, oversees the production of TV and radio public service announcements and films, and coordinates with the National Office, Publishing Services Branch in distributing materials to the field. The Division also provides advice to the Commissioner, Deputy Commissioner, Taxpayer Ombudsman, the Chief Counsel, Assistant Commissioners, and other National Office officials on taxpayer information matters; directs National Office Taxpayer Information Programs, and provides functional supervision to the field offices on taxpayer information, including guidance, assistance and evaluation services as described in the applicable sections of this Chapter.

6322.2 *(10-13-81)* Assistant Commissioners and Chief Counsel

(1) Inasmuch as information conveyed to the public develops from the activities of all segments of the Service, Assistant Commissioners, Chief Counsel, Taxpayer Ombudsman, and the Assistant to the Commissioner (Public Affairs) should keep the Taxpayer Service Division informed of all matters having current or potential taxpayer information impact. This includes:

(a) recommending to the Taxpayer Service Division objectives and programs on which mass information approaches may help to increase substantive program effectiveness; or reduce program costs; and

(b) providing information and assistance to the Taxpayer Service Division for the development of materials to be disseminated by the Service.

(2) Each Assistant Commissioner as well as the Chief Counsel, Taxpayer Ombudsman, Assistant to the Commissioner (Public Affairs), and the Office of International Operations will designate a member of his or her office and, where appropriate, of individual divisions under his or her supervision, to serve as Taxpayer Information Liaison Representative. These individuals should be in a position which enables them to speak for their respective organization in providing the assistance and coordination described in (1), above.

6322.3 *(10-13-81)* Regional Offices

(1) The Assistant Regional Commissioner (TX) has primary responsibility for the region's taxpayer information function. Specific program responsibility is assigned to the Regional Public Officer (RPAO).

(2) The RPAO's duties fall within three basic areas:

(a) The first is participation in national programming. This includes reviewing past year's Taxpayer Information Programs and recommending to the Taxpayer Service Division actions that should be taken to improve programs; providing to the Taxpayer Service Division, information on field progresses and concerns; and implementing national programs for regional application.

(b) The second is dissemination of information on regional office activities and on those district and service center activities where regionwide coordination is necessary, or where otherwise warranted by geographic or other special circumstances.

(c) The third is providing district and service center taxpayer information activities, with program management, assistance and evaluation services. The proper discharge of this responsibility requires systematic means for keeping currently informed on district and service center progress and problems. Periodic visits, conferences, reports and other appropriate methods, should be used to guide and assist districts and service centers, and to evaluate their taxpayer information effectiveness.

6322.4 *(10-13-81)*
District Offices

(1) The district office has a primary role in the Service's taxpayer information efforts. As the focal point of the Service representation to taxpayers, its efforts to inform the public are very important. Thus, while recognizing that there will be variances in the extent of professional public affairs staff assistance available to individual District Directors in staffing guidelines, there can be no variance in the degree of responsibility among Directors.

(2) In general, the taxpayer information responsibilities of district offices are to:

(a) develop year-round written taxpayer information plans which implement, supplement and, where necessary, replace requirements of national and regional programs to meet local needs.

(b) systematically issue information materials for dissemination through mass and specialized media, utilizing up-to-date media distribution lists.

(c) evaluate effectiveness of district taxpayer information programs and, where corrective action is indicated, take the actions that are within district authority and forward recommendations on problems or other matters requiring action by higher authority.

(3) District Directors should make maximum use of taxpayer information materials, assistance and guidance available from the regional office and the National Office. When taxpayer information problems arise or become imminent and require professional guidance or assistance not available in the district office, timely requests should be made of the regional office in order to avoid deterioration of program effectivness.

(4) In offices below the district headquarters, the extent to which taxpayer information responsibility is assigned to the designated representative is left to the discretion of the District Director. In view of the large number of taxpayers serviced by many of these offices, district taxpayer information programs should provide for effective coverage of the mass and specialized media in their geographic area. Determination as to the official to be identified as spokesperson in releases and other issuances distributed in areas covered by individual offices should be based on consideration of media desires in those areas and district office management requirements.

(5) In a district that does not have a full-time Public Affairs Officer, program responsibility should be assigned to the Assistant Director; the Chief, Taxpayer Service; or other official who will carry the title Public Affairs Officer in addition to his or her other title. An official's assignment as District Public Affairs Officer (DPAO), whether full or part-time, should be communicated to employees within the district.

6322.5 *(10-13-81)*
Service Centers

(1) The service center has an important supporting role with respect to regional taxpayer information programs. More specifically, the taxpayer information responsibilities of service centers are to:

(a) assist the region in planning and conducting region-wide programs,

(b) assist districts by providing information relating to service center operations, especially of statistical nature,

(c) assist the district within whose jurisdiction the service center is located in its relations with local media.

(2) In a service center that does not have a full-time Public Affairs Officer, program responsibility should be assigned to the Assistant Director; the Chief, Taxpayer Service; or other official who will carry the title Public Affairs Officer in addition to his or her other title. An official's assignment as Service Center Public Officer (SCPAO), whether full or part-time, should be communicated to employees within the service center.

6323 *(10-13-81)*
Materials and Equipment Guidelines

(1) Each region, district and service center should ascertain the extent of reference materials and audio-visual equipment needed to carry out the objectives and responsibilities of the taxpayer information function under its jurisdiction.

(2) Exhibit 6300-1 lists Basic Materials and Equipment, and Optional Equipment, for consideration by each office, as funds permit, in providing appropriate reference material and audio-visual equipment.

(3) In determining material and equipment needs, duplication of resources should be avoided if such material and equipment are available on short notice within the region, district, or service center for taxpayer information use.

6324 *(10-13-81)*
Annual Planning

(1) The Taxpayer Service Division will conduct annual work planning sessions with Regional Public Affairs Officers. These work sessions will provide an opportunity for an exchange of ideas on Service problems in the taxpayer information field and give the Assistants to the Commissioner, Chief Counsel, Taxpayer Ombudsman, RPAOs, and districts through the RPAOs, the opportunity to provide input for strategic taxpayer information planning, especially development of the taxpayer information programs for the upcoming fiscal year. The Public Affairs Division will fully participate in these work planning sessions.

(2) Regional and district offices should develop annual plans with appropriate time schedule and resource requirements to cover the program approaches set forth by the National Office, as well as those developed at the field level to meet particular local needs. In their planning, they should also include use of the specialized media when preparing their distribution schedules. District offices should develop newsletter items or other appropriate vehicles for year-round dissemination to tax practitioners, trade, professional, and other specialized groups needing tax information that is tailored to their circumstances. For example, the restaurant industry might be furnished with articles on depreciation of equipment and reporting of tip income. These efforts should be expanded continually within the limitations of funds and available staff time.

(3) The Taxpayer Service Division will keep Regional and District PAOs informed of contacts made by the National Office with national and multi-regional specialized media. To the extent possible, plans will be developed before the start of each fiscal year. It is recognized that extended legislative sessions may preclude definitive plans before the start of a fiscal year. However, early planning will permit more timely focus on problem areas and provide a basis for adjustments that become necessary due to legislative or other subsequent action.

6325 *(10-13-81)*
Taxpayer Information Programs

(1) The Taxpayer Service Division will select annually the taxpayer information programs to be given major emphasis during the fiscal year, and will issue instructions which set forth the programs and identifies the subject modules to be developed or updated. The taxpayer information programs will be selected in consultation with officials of the affected divisions and the RPAOs. District input will be provided through the RPAOs.

(2) The annual program guidelines will provide the framework for the development of supporting information materials by the Taxpayer Service Division and the formulation of plans by the regions and districts. Although they may be supplemented to reflect local needs and adjusted to meet changing circumstances, PAOs are encouraged to carry out the programs developed in the National Office.

6326 *(10-13-81)*
Taxpayer Information Materials (TIMs)

6326.1 *(10-13-81)*
Development of Materials

(1) In view of the large volume of materials required and the economies afforded by centralized preparation, the Taxpayer Service Division will develop and furnish field PAOs with Taxpayer Information Materials (TIMs) for suggested placement with local media. The materials will be prepared to support major emphasis taxpayer information programs established to meet special needs arising during the year and to support other repetitive information needs.

(2) The Taxpayer Service Division will manage the preparation of TIMs in close cooperation with officials responsible for the functions supported and with careful consideration given the ideas and suggestions of field PAOs. The TIMs will be prepared by Taxpayer Service Division employees, field PAOs who may be assigned to the National Office for temporary duty, and commercial firms selected through Facilities Management Division procurement services.

6326.2 *(10-13-81)*
Types and Identification of Materials

TIMs are grouped into several types, each having an alphabetical symbol. These are described in Exhibit 6300-2.

6326.3 *(10-13-81)*
Distribution and Maintenance

(1) TIMs will be distributed to regions, districts, and service centers by transmittal memorandum from the Taxpayer Service Division. In the case of TIMs prepared for a specific module, a series of action plans spelling out the projected date of receipt for each module as well as a listing of the module's contents and

suggested placement actions and dates will be provided to field offices as appropriate.

(2) Materials to be reproduced locally, instructions, and scripts or descriptions of audio-visual materials will be distributed according to Distribution File No. 232 (with appropriate distribution). Films, tape recordings, drop-in ads and other audio-visual material will be distributed according to schedules prepared when the material is issued.

6326.4 *(10-13-81)*
Use by Field Offices

6326.41 *(10-13-81)*
Districts

(1) District PAOs are responsible for releasing TIMs to the local news media as well as to the specialized media. Some TIMs, such as general news releases, may be furnished with blanks for PAOs to insert local attribution and reproduce on district mastheads. Other TIMs, such as camera-ready, Q & A columns, drop-in ads, and audio-visual materials, are furnished in sufficient quantities for release to media without local reproduction.

(2) TIMs will be made broadly applicable so that minimum adaption is necessary by individual districts. It is recognized, however, that differences exist among the various areas and media involved, and that some TIMs, although based on a consensus of field suggestions, will not cover all situations. PAOs, therefore, should use judgment in issuing those materials appropriate for their situations and in making local adaptions of those materials when appropriate.

(3) TIMs are often prepared months in advance of the date issued to the media. Therefore, PAOs should ensure that material to be released reflects any subsequent changes to law or policy.

6326.42 *(10-13-81)*
Undelivered Refund Checks

(1) When lists of undelivered refund checks are received from the service centers, a concerted effort will be made by DPAOs to release such lists to the media during November. To insure maximum use of the lists by the media, DPAOs are expected, where possible, to make personal approach efforts.

(2) Publicity activities related to undelivered refund checks should involve a multi-media approach and not be confined to the daily and weekly print media. Radio, television, and specialized media should be utilized extensively.

(3) Where appropriate, DPAOs should provide materials to the various Hispanic media.

(4) Districts will develop a systematic approach for gauging the effectiveness of their undelivered refund check publicity efforts.

6327 *(10-13-81)*
Visits to Media

In order to ensure the most effective dissemination of taxpayer information, it is essential to maintain personal contact with editors of daily and weekly newspapers, and managers of television and radio outlets. Periodic (though not overly frequent) visits and discussions with these individuals are often much more satisfactory in results than correspondence or releases alone. Through such contact, information is often gained as to how releases can be improved to suit the needs of the media and thereby assure greater acceptability. Misunderstandings on the part of media regarding Service policy and position can often be reduced by adequate discussion.

6328 *(10-13-81)*
Audio-Visual Materials

6328.1 *(10-13-81)*
Films

6328.11 *(10-13-81)*
General

(1) The Taxpayer Service Division undertakes the development of films as an additional avenue to convey information on Internal Revenue matters to the public. Such films are intended primarily for public service use by television networks and stations, including cable outlets, and motion picture theaters. In addition, certain films are useful as adjuncts for public speaking engagements and taxpayer education efforts.

(a) Television public service announcements, in varying lengths, are prepared each year for television use to support the taxpayer information programs. These may be supplemented with several additional "spots" as the need arises.

(b) Documentaries or other productions, ranging from 10 to 28 minutes, are prepared as the need arises for television, theater and other public showings.

(c) Various other television-oriented materials, such as news film clips, slides and program aids are produced on pertinent subjects.

(2) Field offices will not undertake film projects without prior clearance of the script by the National Office.

(a) Film projects include television spot announcements, news clips, features, and similar products for general distribution to television stations and theaters, whether on film or videotape. Proposals for such projects should be routed through the Assistant Regional Commissioner to the Taxpayer Service Division for necessary clearance.

(b) This requirement is established in view of the fact that the television stations and movie theater chains often have a scope that exceeds district boundaries, and in view of the economies and facilities generally available through centralized development of major products.

(c) This requirement for prior National Office clearance does not apply to films or videotapes prepared by television stations with the participation of Service officials for local public service telecasts. However, if local television stations or IRS offices plan to arrange distribution beyond district boundaries, National Office approval is required.

(3) Cable Television Systems, Cable Networks and producers of local cable programs on advertiser-supported as well as public access channels must be identified and whenever possible contacted personally. These contacts are especially important in view of the potential of the medium.

(a) It is the responsibility of the District Public Affairs Officers to maintain this contact with local cable television systems, as well as satellite superstations in their areas. Districts also should be alert to cable systems offering teletext-type services to cable subscribers, in order to take advantage of the taxpayer informational and education opportunities available.

(b) District Offices will receive informational materials for placement in accordance with needs reported by such offices and fund availability, under procedures covering distribution of Taxpayer Information Materials.

(c) Taxpayer Service Division will be responsible for servicing all National as well as regional Cable Networks, regardless of their geographic locations.

(d) Taxpayer Service Division will also keep close contact with the Cable Industry's national organizations to keep field offices informed on the state of the art.

6328.12 *(10-13-81)*
Distribution and Placement

(1) Regional offices will receive informational prints while district offices will be supplied with prints for placement with local media, in accordance with needs reported by such offices and fund availability, under procedures covering Taxpayer Information Materials (see IRM 6326).

(2) Taxpayer Service Division will place films with television networks and movie theater chains exceeding geographic limits of individual regions. Other National Office components desiring other appropriate use of such films should request prints from the Taxpayer Service Division.

6328.2 *(10-13-81)*
Scripts; Special Programs; Other Radio and Television

(1) Field offices may have the opportunity, through contact with local radio and television outlets, to develop scripts or formats for tax information programs suitable to the needs of the public and outlets in their areas. In arranging such programs, regional and district offices should furnish one copy of each script or format description to the Taxpayer Service Division. Materials of this type developed or adapted by the Taxpayer Service Division will be distributed under TIM procedures.

(2) In utilizing the facilities offered by radio and television stations for Service programs, acceptance should generally be limited to public service time donated by the outlets. Particular care is necessary in the case of documentary film showings or programs primarily originated, prepared or conducted by Service personnel, or programs which the public will likely assume to have been produced on such a basis. In these cases commercial sponsorship of the film showing or program is not acceptable. However, if a station proposes to insert at the usual programming breaks, commercial spot announcements which are unrelated to each other and would not likely be contrued by viewers or listeners as constituting Service endorsement, acceptance is permissable. This restriction does not preclude acceptance of invitations by Service personnel to appear as guests on commercially-sponsored programs which cannot be construed as Service-originated, -prepared, or -conducted, where such appearances are consistent with Service public information objectives.

6330 *(10-13-81)*
Special Commendations to Media

6331 *(10-13-81)*
General

(1) Recognizing outstanding contributions to the administration of the Federal tax laws by the mass or specialized media is another step in accomplishing the objectives of the taxpayer information and public affairs programs. For this purpose, the following types of commendations have been established:

(a) Meritorious Public Service Certificates—These are designed for press (newspaper, wire services, magazines, trade publications, professional journals, etc.), radio, TV, and other mass communication media. (See Exhibit 6300-3. Certificates will be issued by the Commissioner in recognition of outstanding contributions in accordance with the standards and procedures in IRM 6332.

(b) Letters of Appreciation or Commendations—In lieu of recommending certificate awards, regional offices, districts and service centers should send letters of appreciation or commendation to organizations and individuals contributing to Service taxpayer information and public affairs objectives. Services so recognized will generally be those identified in the standards for award of certificates, but the need not be restrictive with respect to the extent of cooperation, nor be limited to contributions of a specific or unusual nature. In the National Office, letter recognition will be given by or with the concurrence of the Director, Taxpayer Service Division.

6332 *(10-13-81)*
Standards for Certificate Awards

(1) The contribution of the candidate must be outstanding rather than routine. Such elements as creativity, ingenuity, initiative, originality and planning in developing programs should be given weight; extent of news coverage, public service cooperation and editorial interest must also be considered. The product must contribute to successful administration of the tax laws. For example, a newspaper that devotes considerable effort to a series of presentations which conclusively assists the Internal Revenue Service in administering tax laws would be a good candidate for a certificate.

(2) Routine stories, articles, radio or TV programs, should not be cited for an award. Thus, a newspaper would not qualify if it merely used TIMs (see IRM 6326) but it might be nominated if, in addition to TIMs, it ran a comprehensive series of tax information articles developed by a specifically assigned staff writer. The writer might also be recognized if the series were of exceptional merit and represented considerable time and effort.

(3) A radio or television station might merit consideration for an award if its use of TIMs and locally developed programs was in such quantity, frequency, and prominence as to represent cooperation greatly superior to that of other similar media in that area. Persons having key responsibilities in developing exceptionally meritorious programs might qualify for individual award certificates.

6333 *(10-13-81)*
Procedures for Certificate Awards

(1) All field recommendations for a certificate must be forwarded through the Regional Commissioner or his or her designee who will forward to the Taxpayer Service Division those recommendations he or she approves. Each recommendation must be accompanied with a written justification which describes the contribution and explains the basis of the recommendation. Copies of articles written or published by the candidate or resumes or programs, if available, should be attached to the justification.

(2) The Taxpayer Service Division will review and evaluate field recommendations. Recommendations meeting Certificate Award Criteria will then be forwarded to the Assistant Commissioner (TX) for approval. After approval by the Assistant Commissioner (TX), recommendations will be forwarded to the Assistant to the Commissioner (Public Affairs) for concurrence and delivery to the Commissioner.

(3) Approved Recommendations.—The Commissioner will indicate approval by signing a Certificate Award, which will then be forwarded by the Taxpayer Service Division to the recommending office, for presentation to the awardee.

(4) Award Ceremony.—The office awarding the certificate may send it by mail with a letter of transmittal, or may conduct a simple ceremony at an appropriate location. The awarding office will cooperate if the recipient desires photographs for newspaper, house organ, or other promotional publicity.

(5) Disapproved Recommendations.—Field recommendations disapproved by the Regional Commissioners or the Commissioner will be returned, with reasons for disapproval, to the recommending offices via the same route followed in the submittal. Recommending officials who believe disapproval is not justified may resubmit their recommendations with any facts they may have omitted from their initial recommendations.

6340 *(10-13-81)*
Program Evaluation

6341 *(10-13-81)*
General

6341.1 *(10-13-81)*
Introduction

Evaluation of the effectiveness of taxpayer information is admittedly difficult inasmuch as the function is one of many contributing and overlapping elements toward the achievement of Service objectives. At best, an absolute set of measures is probably impractical for the Service, due not only to the complexities involved, but to the budgetary needs that its adoption could likely entail. However, devices are available to indicate, at least to some degree, the progress and effectiveness of the function. The subsections that follow outline means utilized by the Service to evaluate taxpayer information activities.

6341.2 *(10-13-81)*
Evaluation of Field Programs

(1) As a participant in the National Office Review Program, the Taxpayer Service Division will evaluate regional taxpayer information efforts. Determination will be derived from the effectiveness with which responsibilities described in IRM 6322.3, 6322.4 and 6322.5 have been discharged, as reflected in regional office, district office, and service center programs.

(2) Evaluative information will be developed through the means described in IRM 6755. In addition, statistical data obtained by Taxpayer Service Division from such sources as Broadcast Advertisers Reports, Bounce-Back Cards and clipping serives will be used in evaluating Taxpayer Information and Public Affairs activities.

6342 *(10-13-81)*
Field Visits

(1) Taxpayer Service Division representatives will visit service centers and district offices periodically to gain first-hand observations as part of the National Office Review Program. Special purpose evaluation and assistance visits will also be made as indicated by field and national needs.

(2) Regional Commissioners and District Directors should include in their visitation programs specific coverage of taxpayer information activities of offices below the district headquarters offices.

6343 *(10-13-81)*
Taxpayer Information and Public Affairs Statistical Reporting

(See IRM 6755, Special Taxpayer Information and Public Affairs Reporting Instructions).

6350 *(10-13-81)*
Participation in Training Courses

6351 *(10-13-81)*
General

Taxpayer Service Division is responsible for assisting the Training and Development Division in the development of training courses for field and National Office Public Affairs Officers, in conjunction with the Assistant to the Commissioner (Public Affairs).

6352 *(10-13-81)*
Training for Public Affairs Employees

6352.1 *(10-13-81)*
Public Affairs Training Courses

(1) Basic Public Affairs (Training Program 3050) is a two-week course for newly designated full and part time Public Affairs Officers (PAO's) and Public Affairs Specialists. It has been developed by the National Office, Training and Development Division with assistance from the National Office Public Affairs and Taxpayer Service Divisions. The course is scheduled by the National Office, Training and Development Division through the Interregional Scheduling Program as dictated by training needs. Participants are selected from nominations submitted by the field and the National Office.

(2) Public Affairs Program Management (Training Program 3051) is an eight-day course for incumbent Public Affairs Officers and Public Affairs employees who have significant management responsibilities. Participants should have completed Basic Public Affairs Training and been on the job for at least one year. It is a classroom seminar with the focus on strategic planning and implementation of taxpayer information and public affairs programs. The course assumes that participants have mastered the basics of operating a public affairs office and addresses the role of the PAO as a consultant to management. It makes use of a series of guest speakers from IRS and the national news media.

(3) Resources Management Training for District Director's Representatives (Training Program 9816) is a four-day course covering the training needs of District Director's Post of Duty Representatives in the areas of public affairs, personnel and facilities management. The public affairs portion consists of two days and is intended to provide the DDR with the knowledge, skills, and abilities he or she needs to carry out necessary public affairs activities in his or her local area. Districts that wish to offer this training on a local level should contact the Chief, Training and Development Branch in the region, to obtain course materials.

(4) For additional information on these courses, see IRM 0420.2, Taxpayer Service, Returns Processing, and Collection Training and Development Programs Handbook.

6352.2 *(10-13-81)*
Continuing Professional Education

The Public Affairs Continuing Professional Education (CPE) program is designed for Public Affairs employees who have completed Basic Public Affairs and Public Affairs Program Management. Each year, Training and Development Division will compile recommendations for a Public Affairs curriculum based on training needs described by field and National Office Public Affairs employees, Taxpayer Information and Education Branch, and Public Affairs Division. The recommendation will be submitted to the TX CPE Council for confirmation. The curriculum will then be sent to the Deputy Commissioner for concurrence. (See IRM 0420.2 for each year's CPE curriculum for Public Affairs employees.)

(Next page is 6-28.3)

Report
# of the
Committee
on

Organization of the Internal Revenue Service

August 12, 1970

Department of the Treasury Internal Revenue Service

US Treasury Department

Internal Revenue Service
Washington, DC 20224

Date:
August 12, 1970

In reply refer to

Commissioner Randolph W. Thrower
Internal Revenue Service
Washington, D. C. 20224

Dear Mr. Thrower:

The Committee appointed to study Internal Revenue Service organization is pleased to submit the attached report.

All the members support the recommendations with one exception. Mr. Donald W. Bacon does not concur in Recommendation 2, which would merge the Collection Division, including the taxpayer service function, from Compliance with the Data Processing Divisions to form a new Assistant Commissioner (Accounts, Collection, and Taxpayer Service). Mr. Bacon's dissenting views and comments on those views by the other members of the Committee are contained in Appendix 5.

Although we found the basic structure of the Service generally sound and effective, there are significant changes that should be made which we feel will improve the contribution of "organization" to the Service mission during the next decade.

Respectfully submitted,

William H. Smith, Deputy Commissioner, Internal Revenue Service

Charles G. Keebler

Charles G. Keebler, Regional Commissioner, Central Region, Internal Revenue Service

A. E. Weatherbee, Assistant Secretary for Administration, Office of the Secretary

Ervin B. Osborn

Ervin B. Osborn, Acting Assistant Commissioner (Data Processing), Internal Revenue Service

Donald W. Bacon

Donald W. Bacon, Assistant Commissioner (Compliance), Internal Revenue Service

Dean J. Barron, Regional Commissioner, Mid-Atlantic Region, Internal Revenue Service

Albert W. Brisbin

Albert W. Brisbin, Assistant Commissioner, (Planning and Research), Internal Revenue Service

Edward F. Preston

Edward F. Preston, Assistant Commissioner (Administration), Internal Revenue Service

William E. Williams

William E. Williams, District Director, Boston District, Internal Revenue Service

Attachment

SUMMARY

This report is about organization of the Internal Revenue Service -- about the structure of IRS, about how well that structure serves federal tax administration objectives, and about how the structure can be changed to better serve those objectives.

The report contains 16 specific recommendations -- concrete steps the Committee believes can lead to a more effective federal tax system. While short-range cost reduction was not the primary objective of the study, full implementation of the recommendations can be expected to yield several millions of dollars in savings. Dollar savings have not been calculated, since to do so would have required involving many offices and employees in the study and would have adversely affected operations and employee morale.

Recommendations are briefly explained below. They are grouped under two categories: those that require approval by the Secretary of the Treasury, and those that can be approved by the Commissioner of Internal Revenue. Thus, the order in which recommendations are listed below does not correspond to the order in which they appear in the body of the report.

Recommendations Requiring the Secretary's Approval

That the Office of the Assistant Commissioner (Data Processing) be abolished, and that its Divisions be combined with the Collection Division from the Office of the Assistant Commissioner (Compliance) to form a new "Office of the Assistant Commissioner (Accounts, Collection, and Taxpayer Service)." (Recommendation 2, page 19)

The accounting and collection functions have long supported each other. Indeed until 1961, they were part of one office and were split in large part to allow the Assistant Commissioner (Data Processing) to concentrate on the development of the Master File system. Thus, their consolidation once again is logical. As a bonus, a more unified Service will result, since the Assistant Commissioner (Data Processing) will be responsible for an important District Office function.

That the Taxpayer Service Branch of the Collection Division be established as a separate division in the Office of the Assistant Commissioner (ACTS). (Recommendation 3, page 24)

This proposal would separate taxpayer service more clearly from enforcement programs and upgrade the function organizationally to reflect the Service's increased emphasis on effective service to taxpayers.

That the positions of Assistant Regional Commissioner (Data Processing) and Assistant Regional Commissioner (Collection) be consolidated to create a new Assistant Regional Commissioner (ACTS). (Recommendation 13, page 108)

This proposal would integrate functional supervision of revenue accounting and processing, collection, and taxpayer service at the regional level to reflect the new functional alignment in the National Office.

That the number of district offices be reduced from 58 to 38. (Recommendation 5, page 68)

The present district structure is characterized by wide variance in the size of districts in terms of number of employees and number of returns filed. There are many small districts which are overstructured and inefficient. At the other end of the spectrum there are districts so large as to be virtually unmanageable. This recommendation would consolidate many small districts into larger multi-state districts and divide the largest districts into more manageable units, in order to achieve a better balanced and more nearly optimum district structure.

That a State Manager of Internal Revenue be appointed in each state not having a district headquarters and that this official be given the title "(name of state) Manager of Internal Revenue." (Recommendation 6, page 74)

Under the new district structure there would be 23 states where a district director would not be located within the geographical boundaries of the state. This recommendation provides for a principal IRS official in each of these states.

That the number of regions be reduced from 7 to 6 by abolishing the Central Region. (Recommendation 10, page 100)

An intermediate level of supervision is required in an organization of 65,000 employees. However, events will shape and reshape the size and structure of that part of the organization. In the judgment of the Committee, the job can now be done effectively with six regions.

That headquarters of the six regions be located in Northern New Jersey, Philadelphia, Atlanta, Dallas, Chicago and San Francisco, and that regions be designated by the name of the regional headquarters city. (Recommendation 11, page 102)

This proposal would retain regional headquarters in Philadelphia, Atlanta, Dallas, Chicago, and San Francisco. The regional headquarters in New York City would be moved to Northern New Jersey (to a city to be selected later). The high cost of living in New York City, relative to other parts of the country, has made it extremely difficult to recruit managerial and technical employees to staff the regional office there. Shift of the office to New Jersey would largely solve this problem.

This proposal would also eliminate confusion with respect to regional designations by changing the names of regions from geographical area designations, e.g., "the Midwest Region," to names reflecting the site of regional office headquarters, e.g., "the Chicago Region."

That the number of Regional Inspectors be reduced from seven to six and that they be located in the six Regional Office headquarters cities. (Recommendation 12, page 106)

This proposal would align Inspection's regional structure with that of the Regional Commissioners.

That the Director of Practice be transferred from the Office of the Secretary to the Office of the Commissioner. Upon transfer of the Director, all portions of the enrollment and practice function should be unified into one component reporting directly to the Office of the Commissioner. Provision for review by the Secretary of the Treasury of adverse decisions by the Director of Practice should be preserved. (Recommendation 1, page 13)

The "practice and enrollment" function is now split between the Internal Revenue Service and the Office of the Secretary. The function should be unified and the Commissioner should have responsibility for it, since it deals only with practice before IRS and no other Treasury organization.

Recommendations Which Can Be Approved By the Commissioner

That the disclosure function be retained in Compliance and placed in the immediate Office of the Assistant Commissioner (Compliance). (Recommendation 4, page 33)

This proposal would retain the disclosure function in Compliance and place it in the immediate Office of the Assistant Commissioner (Compliance) to strengthen the safeguards against improper disclosure of tax information.

That a Collection and Taxpayer Service Division be established in each district to replace the present Collection Division, and that a Taxpayer Service Branch be set up within the Division to replace the present Taxpayer Service Section. (Recommendation 7, page 76)

This proposal reflects at the operating level the upgrading of the taxpayer service function.

That review of specialized tax cases be centralized to a minimal number of districts. (Recommendation 8, page 80)

Few districts have sufficient workload in such specialized areas as estate and gift, life insurance, exempt organization, etc., to supply the incidence and wide range of cases that would enable reviewers to develop the special competence that is needed. This is true of both the present and the proposed district structure. This recommendation provides for concentrating the workload in a minimal number of locations to achieve more economical and uniform specialized review operations.

That the centralization of Audit Review in the Central Region be discontinued and that review operations be placed in those districts that would be selected as review sites if the Central Region were starting from the same base as all other Regions in implementing Recommendation 8. (Recommendation 15, page 112)

Review work in the Central Region would be decentralized, as it is in other regions, to achieve a uniform approach to Audit Review throughout the country.

That the Service adopt as a long-range objective the development of an Audit Review system which will assure uniformity and quality without the need for regional post review. (Recommendation 14, page 111)

There is considerable evidence that regional post review is no longer essential and this proposal commits the Service to ultimately abolishing the function.

That the positions of Regional Training Officer and Director, Regional Training Center be combined into one position: Director, Regional Training Center. (Recommendation 16, page 114)

This recommendation would eliminate duplication between the activities of the Regional Training Officer and the Director, Regional Training Center.

That the administrative head of all Area, Zone, and Local Offices have the title of "(name of city) Manager." (Recommendation 9, page 84)

Administrative heads of offices below the district office level have been designated by a variety of titles. This is organizationally awkward and may tend to confuse taxpayers. This recommendation provides for a uniform title throughout the country.

C. IRS Organization Today

There are three basic characteristics of the job of Federal tax administration that dictate, in large measure, the organizational structure required.

1. The job requires face-to-face or telephone contact with millions of taxpayers or their representatives. This means that field units must be properly staffed and conveniently located to handle these contacts.

2. The job involves the processing of an immense and growing volume of tax returns and related documents. Processing centers must be provided to handle these high volume operations economically and expeditiously.

3. The integral relationships that exist among IRS activities, plus the widely dispersed nature of the activities, require that they be supervised and coordinated by effective supervisory units in the field.

To accommodate these basic characteristics, the Service carries out its activities through some 1,000 offices located throughout the United States and overseas.

The National Office, under policy direction from the Office of the Secretary, has over-all responsibility for planning how the

Service can carry out most effectively the tax laws enacted by the Congress. It prescribes the nationwide policies, programs, and procedures to be followed by IRS employees in all offices throughout the country. It follows up systematically to be sure that field offices are getting the job done on schedule and at the lowest cost.

The seven regional offices have both management and operating responsibilities. They are responsible for implementing and monitoring IRS programs through their broad supervision and control of districts and service centers. In addition, all Appellate and Alcohol, Tobacco and Firearms operations are carried out directly by the regional offices.

The fifty-eight district offices and seven service centers* make up the basic working level of the Service. It is here that tax returns are received and processed and the bulk of National Office policies, programs, and procedures are translated into action which results in a wide variety of direct contacts with taxpayers.

This three-tier structure is shown in Exhibit 1.

This report now turns to an analysis of the strengths and weaknesses of this structure and a presentation of specific recommendations for change.

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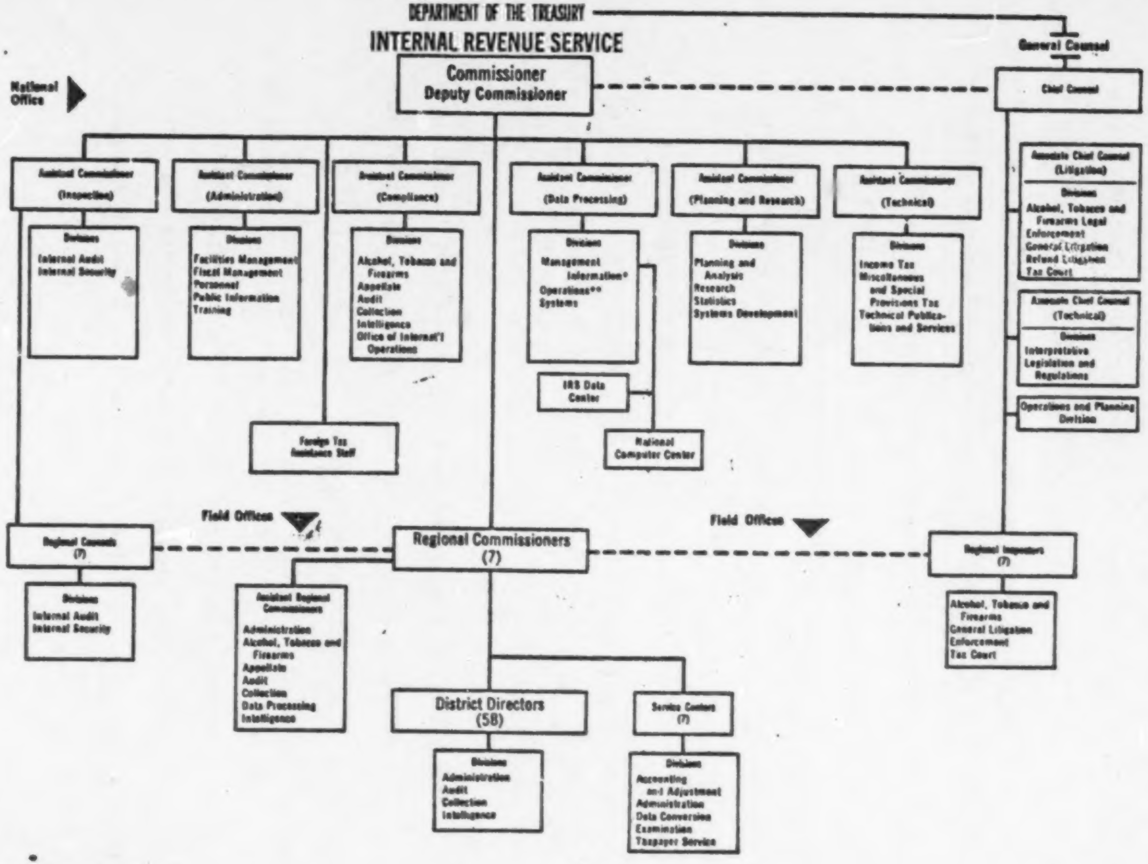
* There are seven service centers now operating. Three additional centers are being constructed and they are expected to be activated by 1972.

EXHIBIT 1

Organization of the Internal Revenue Service


DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
General Counsel
National Office
Commissioner
Deputy Commissioner
Chief Counsel
Assistant Commissioner (Inspection)
Divisions
Internal Audit
Internal Security
Assistant Commissioner (Administration)
Divisions
Facilities Management
Fiscal Management
Personnel
Public Information
Training
Assistant Commissioner (Compliance)
Divisions
Alcohol, Tobacco and Firearms
Appellate
Audit
Collection
Intelligence
Office of Internat'l Operations
Assistant Commissioner (Data Processing)
Divisions
Management Information*
Operations**
Systems
IRS Data Center
National Computer Center
Assistant Commissioner (Planning and Research)
Divisions
Planning and Analysis
Research
Statistics
Systems Development
Assistant Commissioner (Technical)
Divisions
Income Tax
Miscellaneous and Special Provisions Tax
Technical Publications and Services
Associate Chief Counsel (Litigation)
Divisions
Alcohol, Tobacco and Firearms Legal Enforcement
General Litigation
Refund Litigation
Tax Court
Associate Chief Counsel (Technical)
Divisions
Interpretative
Legislation and Regulations
Operations and Planning Division
Foreign Tax Assistance Staff
Field Offices
Regional Counsels (7)
Divisions
Internal Audit
Internal Security
Regional Commissioners (7)
Assistant Regional Commissioners
Administration
Alcohol, Tobacco and Firearms
Appellate
Audit
Collection
Data Processing
Intelligence
Field Offices
Regional Inspectors (7)
Alcohol, Tobacco and Firearms
General Litigation
Enforcement
Tax Court
District Directors (58)
Divisions
Administration
Audit
Collection
Intelligence
Service Centers (7)
Divisions
Accounting and Adjustment
Administration
Data Conversion
Examination
Taxpayer Service

*Includes IRS Data Center at Detroit, Michigan
**Includes National Computer Center at Martinsburg, W. Va.

Two Internal Revenue Services

We also discerned a feeling on the part of some senior officials that there is a trend toward two Revenue Services: Data Processing and service centers on the one hand; Compliance and district offices on the other. The phase-out of the old manual revenue accounting and processing in district offices and centralization of this function in service centers, together with top management emphasis and single-minded purpose in the ADP conversion, has tended to dramatize Data Processing in the eyes of many field people as a separate organization enjoying special status. Also, in times of budget cutbacks, few options are available to save any significant amount of money in this operation to meet a budget crisis, unless one is prepared to delay refunds and bills. This fact is not generally understood, and that has affected Data Processing's image.

Upgrading of Taxpayer Service Needed

The Committee also found that there is a need to upgrade the status and broaden the scope of the taxpayer service function. (This function is discussed in detail below.)

Rising levels of income over the past decade have resulted in greater complexity in tax returns and IRS-taxpayer relations. In addition, changing technology has greatly increased the volume of IRS-taxpayer contacts. The conversion from a manual processing system to an automatic data processing system has given the Service the capability to perform essential tax administration tasks that were only partially performed or simply not done at all under manual processing.

These, and other factors, have resulted in taxpayer service becoming a more important function. This importance is not adequately reflected in the existing structure of the Service.

We believe these problems and trends present Service management an opportunity to achieve a more unified organization and greater responsiveness to the public through restructuring.

Alternative Organizational Arrangements Considered

The Committee examined several alternatives for accomplishing these objectives. The choice quickly narrowed to two: (1) merge into the Office of the Assistant Commissioner (Compliance) all RAP activities; or (2) establish a new Assistant Commissioner who would have jurisdiction over RAP, collection, and taxpayer service functions.

We rejected the first alternative because:

1. The dimensions of RAP programs are such that adding them to the present Compliance structure would create an unusually large and probably unwieldy organization;

2. The combined RAP, Collection, and taxpayer service functions are significant enough to justify a component headed by an Assistant Commissioner. In the case of taxpayer service, this would provide badly needed top-level prestige, management attention and support; and

3. While collection and taxpayer service programs are closely related, they do not have such close relationships with Audit, Intelligence, and the other Compliance programs. Accordingly, we believe separating them from Compliance will present no management problems, and will achieve a unified structure embracing highly related functions.

Recommendation 2: That the Office of Assistant Commissioner (Data Processing) be abolished, and that its Divisions be combined with the Collection Division from the Office of the Assistant Commissioner (Compliance) to form a new "Office of the Assistant Commissioner (Accounts, Collection, and Taxpayer Service)."

The new Office of the Assistant Commissioner (Accounts, Collection and Taxpayer Service) would bring together under one head these three closely related functions, give taxpayer service greater status, and recognize this function in the Assistant Commissioner's title.

This proposed organizational arrangement is based primarily on the close relationship between the Revenue Accounting and Processing function and the Collection function. The two functions are highly interdependent and have long supported each other. Indeed, until 1961 they were joined in the same organizational component, but at that time they were split to allow the Assistant Commissioner (Data Processing) to concentrate on the enormous and unprecedented problems of developing the Master File system. Now that this system has been fully installed and is operating effectively, we feel it is time to reconsider the separation of these two functions.

An analysis of the interaction of the two functions clearly demonstrates their operational interdependence. Revenue Accounting and Processing involves the broad task of processing tax returns and accounting for the revenue. A principal output of this operation is the issuance of taxpayer delinquent accounts, and this output constitutes the bulk of Collection's workload. Thus, Collection is dependent upon the issuance by Revenue Accounting and Processing of taxpayer delinquent accounts, and the latter function is dependent upon the former to collect delinquent accounts to bring taxpayers' accounts into balance.

This relationship between the two functions will be cemented even more tightly when the Integrated Data Retrieval System (IDRS) is installed nationwide in 1973. Under IDRS, Collection personnel in district offices will be able to use remote terminals to interrogate data files at the service centers to check the status of taxpayer accounts and, in some instances, post transactions to help keep accounts as current as possible.

Thus, the close operational relationship between the two functions is apparent, and their consolidation, once again, is logical.

As a bonus, the Service would realize secondary benefits from combining these two functions. Merging Collection with Revenue Accounting and Processing will give the new ACTS organization a stake in district operations. This will tend to reduce the degree of separatism described above, unify the organization, and breathe new life into the "one-Service" concept.

Similarly, the taxpayer service function is logically assigned to the same office. A substantial part of taxpayer service workload stems from or relates directly to service center operations, e.g., notices to taxpayers, adjustments, payment tracers, and accounts problems of various kinds. The peaks in taxpayer service workload tend to fit in with the workload valleys in Collection operations, making for better manpower utilization for both functions. For these reasons, we believe bringing together the RAP, Collection, and Taxpayer Service functions will result in significant improvements in coordination within the Service and in responsiveness to taxpayers.

Taxpayer Service

In a survey of national and field officials, the Committee found overwhelming sentiment for a stronger organization to spearhead a more intensive taxpayer service program.

The Service has always felt and still feels that "enforcement" is the most basic element in preserving the self-assessment system. Obviously, many taxpayers will not continue to cooperate if they cannot be assured that they will not be burdened with the taxes avoided or evaded by others.

On the other hand, it must be remembered that enforcement accounts *directly* for only about 3 percent of collections. However, enforcement no doubt accounts *indirectly* for a much larger share of receipts. Therefore, one of the highest priorities of the Service is to preserve and enhance the willingness of the remaining vast majority of taxpayers to cooperate.

Willingness to comply is, however, only one aspect of compliance. A taxpayer must also have the *ability* to comply. It is obvious that if a given taxpayer is to be able to comply he must understand what the law requires of him, he must have appropriate forms and instructions, and he must be able to obtain assistance in solving his more complex tax problems. To the extent the Service does an effective job of informing and educating the taxpayer in his taxpaying responsibilities and rights and provides him with appropriate forms, instructions and technical assistance, the taxpayer's ability to comply will be enhanced. Clearly, an effective taxpayer service program can contribute to high levels of compliance.

Thus, there was general agreement that the taxpayer service function needs to be upgraded, but there was no unanimity on what would be the "best" taxpayer service organization. In part, the differences arose from a recognition of the number and nature of various Service activities that are related either directly or indirectly to taxpayer service.

Among these activities, various officials listed the following:

Taxpayer Service Branch (Collection Division)
Public Information Division
Technical Publications and Services Division
Training Division
Appellate Division
Income Tax Division
Publications Branch (Facilities Management Division)
Tax Forms Coordinating Committee

The Committee considered several alternative arrangements for pulling together some or all of these activities into a single organizational unit. One alternative would have been to set up a separate "Assistant Commissioner (Taxpayer Service)" and assign to that office several of the branches and divisions listed above. This was rejected primarily because we felt that the basic taxpayer service function does not justify "Assistant Commissioner" status. In addition, most of the taxpayer service-related activities that would be assigned to such an office are now operating effectively in their present locations and should be disturbed only for compelling reasons.

In the opinion of the Committee, the Service can strengthen its taxpayer service programs without centralization of all related functions. We view the present Taxpayer Service Branch of the Collection Division as the nucleus of the new organization.

Recommendation 3: That the Taxpayer Service Branch be established as a separate division in the Office of the Assistant Commissioner (ACTS).

While the Committee does not now favor transferring functions from other offices which have direct or indirect taxpayer service activities, it recognizes an urgent need for coordination of these activities. Experience will demonstrate whether these activities can be adequately coordinated without centralization. We believe that a determined effort should be made to achieve such coordination, and we do not foreclose the possibility of this issue being reconsidered at some future time.

In conclusion, the Committee expresses the hope that the new Taxpayer Service Division will become the taxpayer's advocate and champion in the counsels of the Internal Revenue Service.

It is only natural that the personnel of the Service are highly specialized. The Service's effectiveness is due in large part to the devotion of the technicians, agents, revenue officers, special agents, data processors, and others to their respective specialties. It is also inevitable that specialists do not always see and hear things in the same way as taxpayers do.

The remedy visualized by the Committee is to create a group in the Taxpayer Service Division which will be zealous in advocating procedures and forms which make compliance simpler or more understandable for taxpayers, and in opposing those measures which place avoidable burdens on taxpayers or impede their understanding the requirements placed upon them. Among other things, the new Division is expected to take the lead in conducting research to measure the effectiveness of the various programs related to taxpayer service (including such programs as telephone assistance, filing period publicity, taxpayer publications, and "Teaching Taxes"), and to determine how best to meet taxpayer needs.

This is not an easy role; it will require the selection of leaders and staff of exceptional quality.

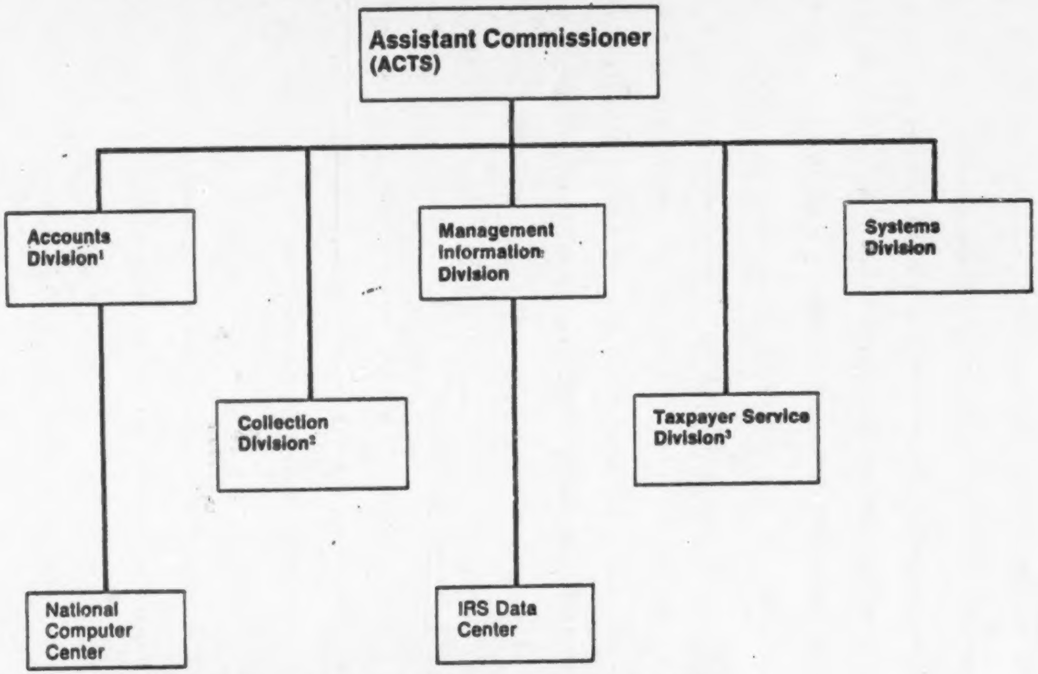
Resolving ADP Resources Problem

The Committee considered various approaches to resolving the problem of allocating scarce data processing resources. The principal alternative evaluated was to separate organizationally the data processing services function from the revenue accounting and processing function. Under this proposal, a "Data Services Division" reporting directly to the Deputy Commissioner would be established as a data processing service bureau. This Division would serve all Assistant Commissioners but would not be captive to any one.

EXHIBIT 2

Proposed Organization of the Assistant Commissioner

(Accounts, Collection, and Taxpayer Service)


Assistant Commissioner (ACTS)
Accounts Division[1]
Collection Division[2]
Management Information Division
Taxpayer Service Division[3]
Systems Division
National Computer Center
IRS Data Center

[1] Operations Division (Data Processing) redesignated as the Accounts Division (ACTS).

[2] Collection Division (Compliance), minus the Taxpayer Service Branch, redesignated as the Collection Division (ACTS).

[3] Newly established Taxpayer Service Division (ACTS) assumes all functions of the Taxpayer Service Branch of the Collection Division.

Recommendation 6: That a Manager of Internal Revenue be appointed in each state not having a district headquarters, and that this official be given the title "(name of state) Manager of Internal Revenue."

In the Committee's opinion, it is essential, both to the Service and to taxpayers, that each state have an IRS official located in that state who is responsible for effective federal tax administration within the state. This will be the job of the Manager of Internal Revenue. As the key representative of the District Director, he will be responsible for maintaining and enhancing the level of voluntary compliance in his state--for knowing the compliance problems and service needs of taxpayers throughout the state and taking effective and timely action to solve those problems and meet the needs of taxpayers.

With the increased emphasis on taxpayer service, it is more important than ever that IRS provide new leadership at the local level. The Manager of IRS will serve more as an "Ombudsman" than as a Tax Administrator. He will be "Mr. IRS" in his state and play a vigorous role in the rapidly evolving taxpayer service function to ensure that the Service activities are carried out in his state in such a manner as to give prompt and fair treatment to all taxpayers.

In addition, the Manager of Internal Revenue will represent the Service locally in dealing with his state's Congressional delegation, with state and local officials, with accounting and bar groups, and with the press.

F. Internal Structure of District Offices

The Committee found that internal changes are needed in the structure of district offices to give effect to the shift of functions at the National Office level and to make district operations more effective.

Collection and Taxpayer Service Division

The proposed realignment of revenue accounting and processing, collection, and taxpayer service functions under the new Assistant Commissioner (ACTS) in the National Office calls for integration of these functions in the field structure as well.

As described earlier in this report, the ACTS proposal is based primarily on the operational interdependence of the Collection and Revenue Accounting and Processing functions. This close relationship is most apparent, and most important, in the field, where mutual support and cooperation between District Collection Divisions and the Service Centers is so vital in carrying out IRS operations effectively.

The realignment of functions at the National Office level will bring District Collection Divisions under the functional supervision of the new ACTS organization and give ACTS management a stake in district operations. At the same time, installation of IDRS will link District Collection operations more closely to the Service Centers. This underscores even more strongly the need to bring the Collection function under the ACTS organization.

We do not think it would be appropriate to use the "Accounts, Collection, and Taxpayer Service" title at the district level, even though District Collection Divisions will receive functional supervision from ACTS. Use of the word "Accounts" in a district organizational title might be interpreted as a partial decentralization of the revenue accounting function back to the districts, and thus a certain amount of district control over taxpayer accounts, which is, of course, not intended by this Committee.

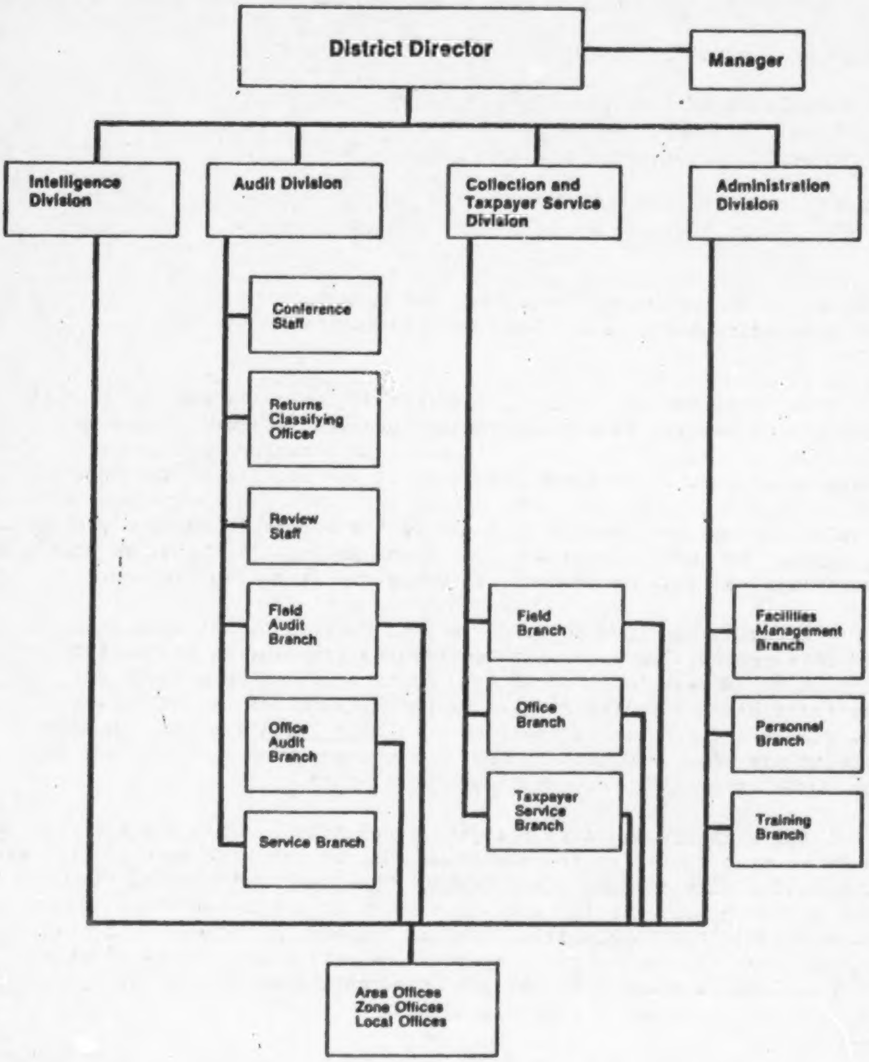
Nevertheless, it will be necessary to redesignate the District Collection Divisions to reflect the upgrading of the Taxpayer Service function.

Recommendation 7: That a Collection and Taxpayer Service Division be established in each district to replace the present Collection Division, and that a Taxpayer Service Branch be set up within this new Division to replace the present Taxpayer Service Section.

(Proposed organization of the Office of District Director is shown in Exhibit 4.)

EXHIBIT 4

Proposed Organization of the Office of District Director


District Director
Manager
Intelligence Division
Audit Division
Collection and Taxpayer Service Division
Administration Division
Conference Staff
Returns Classifying Officer
Review Staff
Field Audit Branch
Office Audit Branch
Service Branch
Field Branch
Office Branch
Taxpayer Service Branch
Facilities Management Branch
Personnel Branch
Training Branch
Area Offices
Zone Offices
Local Offices

Admin.
Return Preparation

11-15-76.

Warren F. Brecht
Assistant Secretary (Administration)

Commissioner of Internal Revenue /s/ D.A.

Report to the Office of Management and Budget on the Costs and Benefits of IRS Returns Preparation and Review

The attached report is an analysis of the costs and benefits of the IRS individual income tax returns preparation/review program compared to third party preparation and preparation by taxpayers themselves. This study was initiated at the request of the Office of Management and Budget (OMB) during late 1974 for the purpose of evaluating the cost-benefit aspects of the Service's returns preparation program. We would appreciate your transmitting this final report, along with this covering memorandum, to OMB pursuant to that request.

I would also like to bring to your attention that Appendix A of this report, "Taxpayer Service Returns Preparation and Review Impact Study" was included as Attachment 5 in our summary report on the Taxpayer Service Program which we submitted to the Office of Budget and Program Analysis on September 28, 1976. The summary report was also requested by OMB, and you may wish to point out to them the connection between these two studies.

Our findings indicate that the population to whom the IRS provides returns preparation/review assistance is for the most part low income taxpayers, many of whom are elderly. The great majority of these taxpayers who ask for IRS aid, file 1040A or a standard Form 1040 to report their tax liability. Based on these study results, it also appears that these returns contain fewer errors when prepared with IRS assistance than when they are prepared either by the taxpayers themselves or by third party assistors.

In terms of direct costs and benefits to the Service, our analysis shows that this program does not pay for itself. However, there are substantial indirect benefits, which, if included, would result in the positive benefit to cost ratio. First, a considerable number of those who received free IRS assistance would, in the absence of this assistance, have resorted to commercial preparation, which they could ill afford. The avoidance of this cost by low income taxpayers must be considered an indirect program benefit. Second, IRS return preparation/review substantially reduces the incidence of unallowable items on returns, thereby reducing Service Center audit staff hours which would otherwise be required. As a consequence, about 14,000 audit staff hours are available for other productive work in the Audit Program where the benefit to cost relationship, in terms of additional revenue, is very positive.

Based on results from the 1976 filing season with the Earned Income Credit provision, it also appears that the IRS does provide more accurate service when dealing with new requirements of the tax law. Although this aspect of taxpayer service was not specifically included in this study, it is a significant factor which should be taken into account in assessing the true value or benefit of the Taxpayer Service Program when one considers the frequency of tax law changes. We must continue to provide such assistance in cases where it is clearly needed.

I believe it is important to keep the IRS returns preparation/review effort in perspective. In FY 1976, approximately 83,000,000 individual income tax returns were filed. We estimate that about 45% of these taxpayers had their returns prepared commercially. In contrast, the IRS provided certified returns preparation/review services to only 700,000 taxpayers, less than 1% of the total. It is our view that the Service's efforts in this area meet the needs of a small but important segment of the population who have special needs. The amounts expended to meet this need are small in proportion to the total Taxpayer Service budget and minute when considered as a proportion of the IRS budget.

It is a rare federal program indeed which can justify its activities on direct benefit to cost relationships. Many IRS programs fall into this category. This does not mean that all IRS programs should be so evaluated. The IRS has not argued that additional Taxpayer Service resources would substantially increase the flow of revenue to the Treasury. Our own experience with taxpayers who have expressed the need for assistance, coupled with concerns expressed by the Congress, the Administrative Conference of the U. S. and other interested groups, has convinced us of the need for a comprehensive and responsive Taxpayer Service Program.

The consequences of not providing assistance are immediately apparent. Our tax system rests in large part on the taxpayers' perception of its equity. Clearly, there is no equity when the Government places complex burdens on taxpayers and then refuses to assist in explaining them. Also, many taxpayers would not or could not comply with the law without our assistance. Finally, there are many instances where without IRS Taxpayer Service programs, taxpayers would be unaware of tax advantages such as credits and deductions to which they are entitled and which have been mandated by law to achieve specific purposes. We are convinced that the tax administration system would be ill-served were we to turn away taxpayers who ask for assistance, using as a sole criterion that such service is not cost-beneficial to the Government.

Attachment

JParry/og 11/9/76 PR:O

Cost/Benefit Analysis of Service
Preparation and Review of Returns

This study involved assessment of the costs and benefits of Service preparation and review of individual tax returns in district offices.

Phase I, Characteristics and Profile, and Phase II, Service Center Tabulation (discussed in detail in Appendix A) have been completed and this report summarizes these findings. Analysis of the data for Phase III, "Audit and Collection History" is currently underway.

The quality of Service prepared and Service reviewed returns was generally similar so these results have been combined and are jointly referred to as Service prepared.

Phase I involved sampling of all 1040 and 1040A returns filed in the period January through June 7, 1975 (Tax Year 1974) and the tabulation of Math Errors and Unallowables by type of preparer. All returns coded at Service Centers as Service prepared or reviewed were included, and 4% of the other categories were randomly selected. Results were:

Table 1

Quality of Returns by Type Preparation

Type Preparer	Sample Size (thousands)	Percent Error Unallowable	Percent Error Math	Total
Service Assisted	695	0.75	1.89	2.64
Third Party	1,064	1.01	2.85	3.86
Taxpayer	2,052	2.32	5.11	7.43

As indicated by the above table, the overall quality of returns prepared (or reviewed) by the Service was better, with respect to both Unallowables and Math Errors, than Third Party or Taxpayer Prepared returns. The data were tabulated in terms of 52 categories, differentiated by type return, marital status and AGI. The quality of Service prepared returns was better than taxpayer prepared returns in almost every category and better than third-party prepared 1040A returns and most standard deduction 1040 returns (24 categories). In the preparation of itemized 1040 returns (28 categories), third party prepared returns were generally of better quality.

The samples were selected from 78.6 million returns filed in 1975 and of these, 0.88% were prepared or reviewed by the Service. This workload was concentrated in three basic areas.

Table 2

Distribution of Major Portion of Service Preparation Workload 1/

Filing Characteristics	Percent of Total Returns	Percent of Service Workload
1040A (regular exemption)	27.6	66.7
1040A (over 65 or blind)	0.4	2.7
1040 (over 65 or blind)	9.0	9.4
	37.0	78.8

1/ From Table B-1, Appendix B

In each of these areas, Service prepared returns were of better quality than either third party or taxpayer prepared returns.

Table 3

Comparison of Quality of Returns by Type Preparer - Combined Unallowable and Math Error 1/

	Percent Error		
Filing Characteristics	Service Prepared	Third Party Prepared	Taxpayer Prepared
1040A (regular exemption)	2.08	4.49	7.25
1040A (over 65 or blind)	1.76	2.97	5.07
1040 (over 65 or blind)	2.92	3.03	5.55

1/ From Phase I detailed results, not included in appendices.

Table 1 gives total error and unallowable rates across all samples; thus, low income returns are heavily represented in the Service sample and less heavily represented in others. These are the areas in which differences in quality between Service and Taxpayer Prepared returns were most pronounced. If we apply the third party or taxpayer error rates, by category, to the volume of Service prepared returns in each of the 52 categories, we get estimates of error rates that would have occurred if those returns had been prepared by either third party or taxpayers.

Table 4

Quality of Returns by Type Preparer Adjusted for Mix of Service Prepared 1/

Preparer	Unallowable	Math Error	Total
Service Prepared	0.75	1.89	2.64
Third Party	1.97	2.85	4.82
Taxpayer	4.17	4.34	8.51

1/ From Phase I detailed results (combined 1040A and 1040)

Service Center Tabulation (Phase II) measured the effect of type preparer on those defects creating an additional workload on the Service Center Code and Edit Error Resolution functions. A total of 102,811 1040A and 52,090 1040 returns processed in 1976 were randomly sampled and eleven types of defects which create an additional Service Center workload were tabulated. Results, presented in detail in Appendix A and Appendix B by each defect category, were:

Table 5

Frequency of Returns Defects by Type Preparer

1040A Returns

Type Preparer	Number Sampled	Percent With One or More Defects
Service Prepared	26,286	8.3
Service Reviewed	7,785	13.8
Third Party	14,033	15.2
Taxpayer	54,707	25.3
	102,811	

1040 Returns

Type Preparer	Number Sampled	Percent With One or More Defects
Service Prepared	7,497	15.1
Service Reviewed	2,976	22.7
Third Party	27,369	20.6
Taxpayers	14,248	35.2
	52,090	

Service 1040 returns were of higher quality than taxpayer prepared returns in all but one of the eleven defect categories and for 1040A returns, in nine of the eleven categories.

In estimating the value of Service preparation, the benefits are of three basic types:

1. Direct cost reduction in terms of additional processing avoided because of errors not committed. Over 25% of taxpayer prepared 1040A returns required some additional processing, as opposed to 8.3% for Service returns.

2. Increased revenue resulting from fewer Unallowable Deductions. In the case of Unallowables tabulated and corrected, the revenue benefits must be credited to the Unallowables program, not to Service preparation which merely reduces the cost of obtaining that revenue. However, tabulated and processed Unallowables are defined in terms of a tolerance. Unallowable items below tolerance are not processed or classified as Unallowable; thus, to the extent Service preparation prevents Unallowables below tolerance, there is a revenue benefit.

3. Benefits to Taxpayers. If a taxpayer is unable to prepare his return, his alternatives (apart from family or friends) are the Service, at no cost, or a practitioner. Service preparation, thus, results in net savings to taxpayers.

Appendix B presents estimates of processing costs associated with processing of returns errors or defects in returns reviewed at Service Centers. Using the Service sample from Phase I as the population estimate, Tables B-4 and B-5 of Appendix B develop estimates of processing costs that were avoided because these returns were prepared by the Service rather than taxpayers. These estimates are:

Table 6

Processing Costs Avoided by
Service Preparation vs. Taxpayer Preparation 1/
(all data in thousands)

Type Return	Number of Returns	Total Defects Avoided	Processing Costs Avoided 2/
1040A	482	133	$131
1040	213	76	61
Total	695	209	$192

1/ From tables B-4 and B-5, Appendix B

2/ Based on detailed, not rounded, computations

Based on estimates of the number of unallowable items below tolerance, we estimate maximum revenue lost for the volume of Service prepared returns considered is:

Table 7

Estimated Revenue Lost as a Result of Unallowable Tolerances (data in thousands)

		Type Preparer	
Type Return	Taxpayer	Third Party	Service
1040A	78.8	45.7	11.8
1040	36.6	10.2	9.4

Table 8, below, summarizes differences in cost to the Service between Service preparation and taxpayer preparation of the returns prepared by the Service.

Table 8

Summary of Direct Costs and Benefits of Service Preparation vs. Taxpayer Preparation (in thousands)

	1040A	1040
Number of Returns	482	213
Cost of Preparation 1/	$360	$240
Benefits		
Processing Costs Avoided 2/	$131	$ 61
Revenue Gained	$ 67	$ 28
Total Benefits	$198	$ 89
Net Direct Cost	$162	$151

1/ Based on cost per return from Appendix D

2/ From Table 6

Service preparation of returns results in net cost to the Service averaging $0.336 and $0.709 for 1040A and 1040 returns respectively under average cost of preparation. A break even position would require preparation rates of 12 to 13 returns per hour for both 1040 and 1040A.

The alternative to Service or taxpayer preparation is third party, usually practitioners. As shown in Table 2 (and in more detail in Table B-1, Appendix B) the majority of Service prepared returns are for low income or disadvantaged taxpayers for whom practitioners fees (a minimum of $5 for 1040A and $8 for 1040) would impose a real burden. However, that imposes minimum costs to the Service. A comparison of these costs is:

Table 9

Summary of Total Costs and Benefits
Under Alternate Types of Preparation
(all data in thousands)

1040A

	Type Preparer		
	Service	Third Party	Taxpayer
Number of Returns	482	482	482
Service Costs			
Cost of Preparation[1]	$360	0	0
Cost of Processing[2]	36	105	167
Revenue Lost[3]	12	46	79
Total Cost to Service	$408	151	246
Cost to Taxpayers	0	2,409	0
Total Cost	$408	2,560	246

1040

	Service	Third Party	Taxpayer
Number of Returns	213	213	213
Service Costs[1]			
Cost of Preparation[1]	240	0	0
Cost of Processing[2]	22	28	83
Revenue Lost[3]	9	10	37
Total Cost to Service	271	38	120
Cost to Taxpayers	0	1,704	0
Total Cost	271	1,742	120

[1] From Appendix D, .748 and 1.131 per return for 1040A and 1040 respectively.

[2] Tables B-4 and B-5, Appendix B.

[3] Table 7, above.

There were an estimated 23,700 fewer Unallowable returns in the Service sample than would have been present if those returns had been prepared by taxpayers. Using an FY 1976 planning rate of 36 minutes per Unallowable return examination, the reduction of Unallowable returns for Service prepared returns is estimated to result in a savings of about 14,000 audit staff-hours.

An alternative method of assessing the benefits of Service preparation is in terms of potential revenue yield of these hours when employed in other Service Center audit programs. Precise yield estimates cannot be made because of limited available Service Center audit operational data; however, in FY 1976 most Service Center audit programs had average yield in excess of $100 per return with average audit time of less than one hour per return. Thus, a conservative estimate of revenue benefits to the Service resulting from a productive utilization of this audit time saved is about $1.4 million.

List of Appendices

Appendix A - Taxpayer Service Returns Preparation and Review Impact Study

Appendix B - Set of tables providing backup for results from Phases I and II and for derived data

Appendix C - Costs of Defects

Appendix D - Cost of Preparation

Phase I, the Characteristics Profile Phase, measures Math Error and Unallowable data observed in Tax Year 1974 returns filed and processed in Calendar Year 1975. This study also provides limited characteristics of taxpayers receiving direct preparation assistance.

Phase II, the Service Center Tabulation Phase, measures the impact of return preparation defects, for those same preparer classes, on the Service Center code and edit and error resolution functions. This phase of the study sampled 1975 Individual Income Tax returns filed and processed through most of the first half of Calendar Year 1976.

Phase III, the Audit and Collection History Phase, will analyze prior and subsequent Audit and Collection activity, as reflected on the Individual Master File, for those taxpayers selected in the Phase I sample. Results are not yet available.[1]

B. Results Phase I

1. IRS Assistance Is Provided For and Used by those Taxpayers Who Need Tax Assistance the Most

IRS assistance programs are generally aimed at that segment of the population most in need of return preparation assistance. Attachments 1 and 2 graphically display the general population characteristics, and the characteristics of taxpayers seeking IRS assistance in direct return preparation or review.

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[1] Preliminary analysis indicates significant statistical data is not present to derive

In the form 1040 returns category, almost one third of the IRS assisted returns are for taxpayers who are over 65 and/or blind, as compared with about one-eighth for all other returns. Note also that almost 75% of IRS assisted forms 1040 have less than $10,000 Adjusted Gross Income, as compared to under 45% for the balance of the population.

In the form 1040-A return category, the proportion of taxpayers over 65 and/or blind is almost three times as great for Service assisted returns as for all others. Similarly, the percentage of 1040-A returns with AGI less than $10,000 is about 92% for IRS assisted returns as opposed to about 87% for the balance of the population.

2. Returns Prepared and Reviewed by Internal Revenue Service Contained Fewer Math Errors

On returns prepared or reviewed by Taxpayer Service personnel, the incidence of Math Errors is considerably less than that observed on returns prepared with the assistance of a third party, or with no assistance.

Approximately 70% of returns prepared or reviewed by IRS are Forms 1040-A. Math errors were observed on only 1.5% of those returns. 1040-A returns prepared with the assistance of a third party (sometimes, but not always commercial assistance) contained math errors on 2.7% of all returns. 1040-A returns prepared without any assistance had a math error rate of 3.9% (See Attachment 3).

3. Returns Prepared and Reviewed by Internal Revenue Service Contain Fewer Unallowables Than All Other Returns

As was observed in the frequency of Math Errors, the incidence of Unallowable items[1] on returns prepared or reviewed by the Service is much less than for returns prepared by third parties or without assistance. The differences are even more pronounced, especially in the form 1040-A return categories (see Attachment 3).

In the form 1040-A categories, returns prepared and reviewed by the Service have an error rate approximately one-third as large as third party prepared returns, and less than one-fifth the error rate observed on returns prepared without assistance. Again, the "Married Filing Separately" has a higher incidence of Unallowable error for all types of preparers.

Phase II

1. Returns prepared by the Service had fewer returns with defects than any other class

	Service Prepared	Practitioner Prepared	Taxpayer Prepared
Form 1040-A	8.3%	15.2%	25.3%
Form 1040	15.1%	20.6%	35.2%

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[1] Unallowable items represent errors or inconsistencies (which are not math errors) that appear on the return and about which there should be no dispute when called to the taxpayer's attention.

In preparation and review of forms 1040, the Service's error rates are roughly comparable to 1040 returns prepared by third parties. Returns prepared without any assistance have twice as large an incidence of math errors as those prepared with assistance, no matter who the assistor.

For all classes of 1040/1040-A preparers, the highest error rates are generally associated with a marital filing status other than "Single" or "Married Filing Joint". In all instances, the Service assists a larger portion of taxpayers in those categories, e.g. 2.5% of all returns (1040 and 1040-A) were filed with a marital status, "Married Filing Separate"; 6.5% of IRS assisted returns are for taxpayers with that marital status. Similarly, marital status "Head of Household" accounts for 5.5% of total returns filed, and constitutes 9.6% of the total returns prepared with IRS assistance.

Further stratifying of results by Return Type, Adjusted Gross Income and Standard vs. Itemized Deduction, disclosed that Service Prepared/Reviewed returns had lower Math Error rates than third party prepared returns in 15 of 24 1040 and 1040-A Standard Deduction categories. Both Service and Third Party assisted returns were consistently better than returns prepared with no assistance.

In summary, in those categories of returns which represent 85% of Service Prepared/Reviewed returns, the Service was clearly better than third party prepared returns, and both were better than returns prepared without any assistance.

Lines 4 through 14 of the Defect Tally Sheet (Attachments 4 and 5) are the defects used in computing error rates. Attachments 4 and 5 identify the error rate for forms 1040A and 1040 respectively, and for each preparer class.

2. Service Prepared and Reviewed Returns have a higher Incidence of "No Label" Than Any Other Preparer Class

Note that line 3, "No Label" is not considered a return defect. The absence of a label is a significant cost item to the service, requiring editing and transcription of the entire name, address, city, state, zip code and SSN (results in a higher unpostable rate). However, during the examination process, the examiners could not determine whether the preparer had access to a label. Service Prepared and Reviewed Returns have a higher incidence of "no label" than any other preparer class. This might mean that taxpayers seeking assistance do not bring in the forms package which was mailed to them by the service centers. It might also mean that a large number of taxpayers seeking assistance are first-time filers, who received no forms package. Since it is easier to apply the label to the return, rather than completing the name and address portion manually, it is unlikely that labels were available to the Service employees assisting in preparation of the return.

3. Service Reviewed Returns Had The Highest Defect Rate of Any Preparer Class of "illegible entries"

	1040-A	1040
-taxpayer prepared	2.8	3.3
-practitioner prepared	1.7	1.7
-Service prepared	2.6	4.2
-Service reviewed	6.8	9.3

It should be observed that these are returns prepared by the taxpayer, with or without IRS self-help assistance; and the illegible entry should not be attributed to the IRS assistance.

4. IRS Assisted Returns Have the Lowest Rates for Defects which Are Most Significant

-- Computation Errors, which are the most significant based both on frequency and impact, are considerably lower on both forms 1040 and 1040-A Prepared or Reviewed by the service. This percentage confirms Math Error rates identified in Phase I of the study. Although the rates are not identical to Phase I rates, (and should not be, because of different sampling schemes, different tax year with new tax provisions, etc.), the same general relationships exist.

Unpostable defects, which have a significant impact on service center operations, are usually attributable to the failure to use a label. Unpostable defects cannot be attributed to the preparer, no matter third party or IRS, since in the absence of the label, the entry is totally dependent on the Taxpayers recollection of SSN and filing status of the previous year.

Summary

Results from Phases I and II of the study establish that returns prepared and reviewed by the Service:

1. Generally have a lower incidence of Math Errors
2. Generally have a lower incidence of Unallowables
3. Generally have fewer defects in those aspects of return preparation within the control of the preparer
4. Generally have a lower incidence of error in those return preparations defects which occur most frequently and have the greatest impact on other Service operations.

Attachment 6 describes the methodology for the study.

DATE 12/19/77

Mr. William Beckham
Assistant Secretary (Administration)

Commissioner of Internal Revenue

Report to the Office of Management and Budget on the Costs and Benefits of IRS Returns Preparation and Review

By memorandum of November 15, 1976, on the same subject, my predecessor forwarded to you for transmittal to OMB, a report on this project, requested in OMB's FY 1977 budget allowance letter. In that report, we indicated that we had not completed analysis of the Collection and Audit history of taxpayers who received IRS Preparation or Review assistance. The attached report is the completed analysis of that phase of the study. We would appreciate your transmitting this memorandum and report to OMB.

Our findings with respect to Audit Activity for Tax Years 1973 and 1974 indicate that returns prepared or reviewed by IRS have lower examination rates and higher no-change rates than returns prepared by third-party preparers or taxpayers. These conditions were true with one exception, for all adjusted gross income classes in both years. Insofar as Collection activity is concerned, the results are inconclusive; Service returns were clearly better in 1973 but in 1974 were about the same as taxpayer-prepared returns and had a higher incidence of collection problems than third-party prepared returns.

Total cost to the Service in 1975 for processing, revenue loss and audit per 1000 returns of the type prepared by the Service, is estimated to be:

Prepared by	Cost per 1000 Returns
Service	$455
Third Party	$962
Taxpayer	$1060

Service preparation, thus, results in internal savings of $507 and $605, per 1000 returns when compared respectively with a similar mix of third-party or taxpayer-prepared returns. These savings do not offset the estimated cost of $3860 per 1000 returns the Service incurs for preparation.

Analysis of data in the November 15, 1976 report indicates that approximately 90 percent of the taxpayers who sought IRS preparation assistance in 1974 were low income (AGI under $ 6,000) or elderly or blind. Analysis of patterns of preparation, presented in Attachment 2, shows that a high percentage of taxpayers who sought IRS assistance in 1974 also came to IRS in 1973 or 1975 (or both). Conversely, taxpayers who had returns prepared by a third party, or those who prepared their own returns in 1974 tended to continue these patterns and did not seek IRS assistance in either 1973 or 1975.

From these data it is clear that a very high percentage of the disadvantaged and low income taxpayers, who comprise 90 percent of the Service's return preparation workload, are unable or unwilling to prepare their own returns and therefore seek IRS assistance on a regular basis. Their principal alternative is paid assistance, which many can ill afford.

Approximately 700,000 taxpayers sought IRS assistance in preparation of their 1974 returns at an estimated cost to the Service of $3,020,570 covering preparation, processing and audit costs. Had these taxpayers used paid assistance the cost to the Service for processing and audit would have been $673,540, representing a savings (to the Service) of $2,347,030. Paid assistance would, however, have entailed a cost to those taxpayers of $5.25 million, if we assume an average preparation charge of $7.50 per return.

IRS preparation of returns cannot be justified in terms of direct cost-benefit to the Service despite the relatively small preparation cost of $3.86 per return in 1975. (See Table V of Attachment for methodology.) In terms of a total system consideration, however, denial of preparation assistance would impose a significant cost burden on those taxpayers least able to afford it.

The basic conclusion we reach is that although Service Preparation and Review is not directly cost beneficial, it does provide, at a reasonable cost, a necessary service to a significant group of disadvantaged taxpayers who otherwise might be forced to seek paid assistance or who possibly would not meet fully their tax obligations.

Attachment

Effect of Service Preparation Assistance on Taxpayer Compliance (Phase III)

This phase of the study was designed to measure the cost/benefit effect, if any, that IRS Returns Preparation Assistance (Preparation or Review) might have on taxpayer compliance as related to Audit and Collection. The Service's prior report [1] covering Phases I and II, was concerned with costs and benefits related to Math Errors, Unallowables and Service Center Code and Edit operations.

The data base for Phase III was a large, random sub-sample of the 1974 sample used in Phase I. A comparison of sample size is:

	Number of Taxpayers (thousands)		
	Phase III	Phase I	%
Service Assisted	562	695	80.9
Third Party	858	1,064	80.6
Taxpayers	1,652	2,052	80.5

From our sample of TY 1974 returns filed in 1975, we entered the Master File and extracted the following information:

1. Audit Results on those 1974 returns as of 8/24/76. By that date all normal Audit selections would have been made and the vast majority would have been completed.
2. Audit Results on the 1973 returns of those taxpayers who were in the 1974 sample and filed a return in 1973.
3. Collection Activity notices and TDA's with respect to the 1974 returns as of 8/24/76. By that date, most normal 1974 tax year delinquencies would have reached the TDA stage.
4. Collection Activity Notices and TDA's with respect to the 1973 returns of those taxpayers who were in the 1974 sample.
5. A tabulation indicating type preparation received by the 1974 sample in years 1973 and 1975.

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[1] "Report to the Office of Management and Budget on the Costs and Benefits of IRS Returns Preparation and Review", Commissioner of Internal Revenue to Assistant Secretary (Administration), November 15, 1976.

In items 1 through 5 above the results were presented by the type preparation assistance received in the Tax Year involved.

Results of analysis of the five tabulations are as follows:

Tables I and II briefly summarize results of Audit of 1974 and 1973 returns from the sample. As shown in Table I examination rates for Service-prepared returns were (with one exception) lower than third-party and taxpayer-prepared returns for each income class for both years. For those returns examined, Table II shows that for every income class in 1973, Service-prepared returns had a much higher no-change rate (i.e., the returns were found to be correct as filed) than the other types of preparation. In 1974, the no-change rates for Service-prepared returns were higher in four out of five income classes than third-party or taxpayer-prepared returns.

A detailed review of Tables I and II indicates that results for Service-prepared returns relative to the other types of preparation were much better in 1973 than in 1974. In 1973, examination rates for the other categories were two to four time higher than for Service-prepared returns and no-change rates were about one-half for Service returns.

Two reasons may be advanced for the apparent higher compliance of taxpayers who sought Service preparation assistance:

1. The quality of assistance prevented errors which would have resulted in selection for Audit and in tax changes after Audit. This is clearly demonstrated by Phase I Study Results in which the incidence of Unallowable and Math Errors for Service returns was significantly lower than for the other categories.

2. The group of taxpayers who seek Service assistance may be more inclined to meet their tax obligations and less inclined toward practices which could cause a subsequent audit or tax change.

As shown in Attachment II, a substantial number of taxpayers seeking assistance in any one year have established a pattern of regular IRS assistance, and, we may assume, have a willingness to comply. They are, however, unable or unwilling to prepare their own returns and in the absence of IRS assistance would be forced to use practitioners or to self-preparation. In either case their compliance would be likely to decline.

Table III presents summary data on the evidence of notices and TDA's issued. In 1974 taxpayers with Service assistance had a higher rate of notices and TDA's than those with third-party preparation and were only slightly better than taxpayers who prepared their own returns. In 1973 the Service-assisted group had fewer notices and TDA's by several orders of magnitude than the other groups. These conflicting results may be explained by the relatively high percent of taxpayers in the 1973 sample who regularly seek assistance.

TABLE I

Audit Results Tax Years 1973 and 1974
Examination Rates by Type Preparer

Income Class	Service	Prepared by Third Party	Taxpayer
AGI under $5,000			
1974	0.4	0.5	0.3
1973	0.5	2.3	1.4
AGI $5,000 under $10,000			
1974	1.4	2.6	2.2
1973	1.1	3.4	2.9
AGI $10,000 under $15,000			
1974	0.5	1.0	0.9
1973	1.1	2.9	2.5
AGI $15,000 under $30,000			
1974	1.0	1.8	1.4
1973	1.1	3.2	2.0
AGI over $30,000			
1974	3.5	5.7	4.9
1973	2.8	10.6	5.9

NOTE: Service samples for AGI over $30,000 were small, 654 in 1974 and 108 in 1973. Samples for all other categories were large for both years.

TABLE II

Audit Results Tax Years 1973 and 1974
No-Change Rates on Examined Returns
by Type Preparer

Income Class	Service	Prepared by Third Party	Taxpayer
AGI under $5,000			
1974	40.5	46.0	39.8
1973	69.4	30.2	30.3
AGI $5,000 under $10,000			
1974	45.0	39.2	29.7
1973	70.1	31.1	29.6
AGI $10,000 under $15,000			
1974	39.1	26.1	24.3
1973	65.0	30.0	27.7
AGI $15,000 under $30,000			
1974	38.5	32.5	32.0
1973	58.5	29.2	27.9
AGI $30,000 and over			
1974	52.5	35.7	37.5
1973	100.0 (3 cases)	30.8	32.2

Note on Table II applies.

TABLE III

Collection Results for Tax Years
1974 and 1973 Returns by Type Preparation

	Service	Prepared by Third Party	Taxpayer
1974			
Total Returns	561,577	858,380	1,651,692
Percent with			
Notices	2.2	1.7	2.8
TDA's	0.7	0.2	0.8
1973			
Total Returns	165,363	1,253,422	1,360,961
Percent with			
Notices	0.7	6.6	3.6
TDA's	0.2	1.4	0.8

TABLE IV

Detailed Audit Results for AGI under $15,000 by Type Preparation

	Service	Third Party	Taxpayer
Total Returns	561,577	858,380	1,651,692
AGI under $15,000			
Percent of Total	96.3	76.2	74.7
Number	540,774	654,414	1,234,386
Number Examined	3,580	8,759	13,112
Percent Examined	0.66	1.34	1.06
Total Amt. Change	$442,643	$1,158,791	$1,786,544
Est. Audit Cost[1]	184,621	451,702	676,186
Yield per			
Examination	123.64	132.30	136.25
Hour	77.28	82.69	85.16

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[1] Based on total audit cost of $43 per 1040A and $71 per low non-business 1040. Weighted by the Service-prepared mix (69.4% 1040A and 30.6% 1040) gives average audit cost per return of $51.57. Total audit costs include classification, direct examination, review, conference, supervision and other support. (Third Party and Taxpayer mix of 1040A/1040 returns differed from Service mix, but a constant mix assumption was used to provide comparability.)

TABLE V

Estimated Total Service Costs per 1000 Returns by Type Preparation

	Service	Third Party	Taxpayer
Cost of Preparation	$3860.00[1]	0	0
Subsequent Costs			
Processing[2]	83.50	$191.40	$359.70
Revenue Lost[2]	30.20	80.60	152.50
Audit[3]	341.40	690.20	547.80
Total Subsequent Costs	455.10	962.20	1060.00
Total Service Costs	4315.10	$962.20	$1060.00

[1] Cost per return was computed as follows:

a. Total Number Taxpayer Service Staff Hours devoted to Direct Preparation/Self-Help in FY 1975 as a percentage of Total Taxpayer Service Walk-In Staff Hours;

b. That percentage applied to total Taxpayer Service Budget costs chargeable to the Walk-In Activity (District Office and National Office salaries, benefits and travel; Field Administration; all facilities and other support, except toll-free telephone circuitry and equipment and printing/distribution of Tax Packages).

c. Divided by units (number of returns regardless of type) Direct Preparation and Self-Help.

[2] Derived from Table 9 of the November 15, 1976 report. Weighted to reflect the Service Prepared mix of 69.4% 1040A and 30.6% 1040.

[3] Derived form Table IV, above.

Taxpayer Patterns of Preparation Assistance

A review of practices in return preparation over the three years of the survey indicates that taxpayer habits are fairly consistent. From our 1974 sample we have the following data on repeat filers:

Type Preparation in 1974

	Service	Third Party	Taxpayer
1974 Sample	561,577	858,380	1,651,692
Sampled in 1973 or 1975	751,056	1,277,926	2,385,437
Service Assisted			
1973 and 1975	54,321	140	891
1973 or 1975	195,946	3,718	11,682
Total assisted 2 yrs.	304,588	3,998	13,464
Total percent assisted	40.55	0.31	0.56

Of those taxpayers who had Service assistance in 1974 and who were sampled in 1973 and/or 1975, a total of 40.55% received Service assistance in those years. Conversely, of taxpayers who used Third Party assistance or prepared their own returns in 1974 (and who were sampled in 1973 or 1975), only 0.31 and 0.56 percent, respectively, received IRS assistance in 1973 or 1975.

The actual percent of taxpayers who return to IRS for assistance is believed to be considerably higher than indicated above since the base year, 1974 was not a typical year. In FY 1973 the nationwide Return Preparers Compliance Program reached its peak in terms of prosecutions and publicity. As a consequence, approximately 395,000 of the taxpayers in the total sample who used Third Party assistance in 1973 avoided such assistance in 1974. Thus, the 1974 data for Service assistance included a large number of taxpayers who had not previously used IRS assistance. A brief summary of these data shows:

Type Filing Assistance

Tax Year	Service	Third Party
1973	165,363	1,253,422
1974	561,577	858,380
Change 1973 to 1974	+396,214	-395,042

Summary of IRS Organizational Review Adopted Recommendations

February 1978

Department of the Treasury
Internal Revenue Service

Study Background

In April, 1977, Secretary Blumenthal directed Commissioner Kurtz to review the recommendations contained in a 1970 study report of the organization which had not been implemented. In response, the Commissioner established a study group chaired by the Deputy Commissioner and comprised of Senior IRS Executives from all three levels of the organization and a representative of the Office of the Secretary. In addition to reviewing the 1970 report, the group was responsible for making a comprehensive review of the present IRS organization. This study, like those conducted by other Treasury agencies, is an adjunct of a governmentwide organization review requested by the President.

Why These Recommendations

In reviewing the organization of the IRS, the study group examined a variety of factors including workload projections, technical considerations, growth factors, employee considerations, cost estimates, and many others. The group's recommendations reflect the application of two philosophical commitments.

(1) The present three-tier organizational structure is conceptually sound and the appropriate level for delivery of front-line services is the districts and service centers. The Regional Office provides the necessary interface between this front-line and the policymakers at the National Office.

(2) Any organizational change, to be recommended, must result in the maintainance or improvement of levels of service to the public, regardless of any other benefit.

The Service believes that these recommendations are in keeping with both these philosophical commitments as well as with the goal of administering the tax code and servicing the taxpayer in the most effective and economical manner.

Miscellaneous Information

-- The recommendations of the study group have been approved by the Commissioner and reviewed by both the Secretary of the Treasury and Director of the Office of Management and Budget.

-- The Congressional delegations of the states in which the 12 streamlined districts are located will receive letters from the Commissioner explaining the changes involved in "streamlining".

-- The Service will neither gain nor lose any functions as a result of this reorganization. Other studies directly controlled by OMB are exploring areas which may impact the Service at a later date, but we have no information in this regard at this time.

-- A complete timetable for implementation has not been developed. Implementation will be accomplished in accordance with a schedule which enables the Service to minimize to the greatest extent possible any adverse impact on employees as well as to meet all legal, regulatory and operational requirements.

Streamlined Districts

-- All 58 Districts will continue to be administered by a District Director because of the need for on-site IRS representation to administer IRS functions, deal with Congressional delegations, state and local officials and the daily problems which require immediate attention and resolution.

-- The 12 streamlined Districts were identified as those with significantly less than 600 employees and without potential to grow to 600 in the foreseeable future. Although Anchorage and Honolulu meet these criteria, their geographic distance from mainland District Offices made streamlining impractical.

Redeployment Background

Reorganizations and redeployment techniques are not new to the Service. In the 1960's, redeployment techniques were implemented as a result of the realignment of the Service's field offices and a reduction of our Regions from nine to seven and our Districts from 62 to 58. Also, in the 1960's, the Service converted from manual processing in District Offices to automatic data processing in Regional Service Centers. And in the early 1970's, we increased our Service Centers from seven to ten, which required a redistribution of work among the Centers. In all of these reorganizations, redeployment techniques were successfully undertaken to place the affected employees in positions for which they qualified and/or used a training program to place them in new positions.

In this reorganization, we plan to use the same redeployment techniques, and if needed and deemed appropriate by management, training programs, to place affected employees in new positions.

Summary of IRS Organizational Review Adopted Recommendations

This is a summary of IRS Organizational Review Adopted Recommendations for use in briefing managers, employee group representatives, and employees.

Appeals Process

There has been a review of the entire IRS appeals process, which has been reported widely in both professional and general circulation publications. As a result of this review, work is currently in progress on a Notice of Proposed Rulemaking under the Commissioner's "601 Regulations" authority. Until this notice is ready for publication in the Federal Register, it would be premature to discuss proposed changes in the appeals process. Work on this notice should be completed within four to six weeks; and at the time the notice is ready for publication, managers, employee group representatives, and employees will be briefed on its contents and any potential effects on present organizational assignments.

National Office Organization (Attachment 1)

1. That a position of Assistant Deputy Commissioner be established. The Study Group found that the breadth and scope of the Deputy Commissioner's job, which includes the immediate supervision of 16 senior executives, creates an unreasonably large burden on the incumbent. It also observed that demands upon the Deputy Commissioner's time prevent him from giving executive direction to all of the high priority programs for which he is responsible.

2. That responsibility for service to the public functions be placed under one executive, designated the Assistant Commissioner (Taxpayer Service and Returns Processing). The Study Group felt that the 1970 report, which recommended establishment of the Assistant Commissioner (Accounts, Collection and Taxpayer Service), was a step in the right direction, but needed even further refinement by transferring Collection, an enforcement function to the Compliance activity. In addition, there were three functions - Disclosure, the Taxpayer Information Materials (TIM) activity of Public Affairs Programs Branch, and Tax Administration Advisory Services (TAAS) - which the Group felt were distinctly service to the public

functions and should also be under the direction of the executive responsible for taxpayer service. These moves would for the first time in IRS provide separate organizational and executive identity to this key aspect of tax administration.

3. That the Collection function be transferred to the Assistant Commissioner (Compliance). Related to the grouping of service to the public functions under one executive would be the placement of all enforcement functions - Audit, Collection, and Intelligence - under the jurisdiction of the Assistant Commissioner (Compliance). To assist in the management of the expanded Compliance office, the Group recommends the establishment of a second Deputy Assistant Commissioner (Compliance) position. The Group also felt that titles should be changed to better describe Audit, which would become "Examination," and Intelligence which would be redesignated "Criminal Enforcement."

4. That responsibility for centralized services - those services in direct support of operating elements of IRS - be assigned to an Assistant Commissioner (Resources Management). For many years the concept of providing administrative services on a centralized basis has worked extremely well - from both an effectiveness and an

efficient use of resources standpoint. The Study Group felt that a logical and workable extension of this concept would be to provide on a centralized basis services now rendered in the Audit and Employee Plans and Exempt Organizations Services Branches, the Collection Office Branch, and the Intelligence Records Section in mass processing activities. In addition, the Group believes that greater security, with resulting added assurance of the confidentiality and privacy of tax return information of Integrated Data Retrieval System (IDRS) terminals (excluding inquiry terminals) and microfilm look-up would be achieved by locating terminals and operations in one location to serve all operating elements. More effective and efficient utilization of these facilities could also be expected from such centralization. Since the Assistant Commissioner (Administration) already has responsibility for administrative service functions - Facilities Management, Fiscal Management, Personnel, Security, and Training - the Group concluded that centralized services should be the responsibility of this executive, who would be redesignated the Assistant Commissioner (Resources Management).

5. That the direct responsibilities for the position of Assistant to the Commissioner for Public Affairs be restructured to separate out the Taxpayer Information Materials (TIM) function, which would be transferred to the Assistant Commissioner (Taxpayer Service and Returns Processing). The present dual responsibilities of the office of Assistant to the Commissioner for Public Affairs - public affairs, which involves close daily contact with the Commissioner and other key IRS officials, and the production of audio-visual and printed Taxpayer Information Materials (TIM) for field office use through mass media approaches - place, in the Study Group's view, an unreasonably large burden on a single executive. It is virtually physically impossible for the Assistant to the Commissioner for Public Affairs to give the necessary direct attention and guidance to both areas. In addition, the Group concluded (as was discussed earlier) that all service to the public functions should be placed under the direction of one IRS executive. Examination of the Public Affairs Division, which the Assistant to the Commissioner also heads as Director, revealed that the separation of the public affairs and taxpayer information functions can be accomplished easily. The Study Group recognizes that close coordination between the Assistant to the Commissioner, the taxpayer information

function, field Public Affairs Officers, and other key elements of IRS will be required - as it is today. No change in existing responsibilities for contacts and relations with news media and national associations is proposed.

6. That the Office of the Assistant Commissioner (Employee Plans and Exempt Organizations) be retained. The Study Group spent a considerable amount of time evaluating the Employee Plans and Exempt Organizations (EP/EO) function. Unlike other Assistant Commissioner offices, the Assistant Commissioner (EP/EO) is a statutory position and is organized along program, rather than functional lines. There has been considerable sentiment among IRS executives that a melding of EP/EO into the regular IRS functional structure could accomplish at a lower cost all of the goals which the Congress had in mind in establishing the Assistant Commissioner position. The Group, however, felt that there were still significant technical and managerial problems associated with assuring that pension plans conform with the provisions of the Employee Retirement Income Security Act (ERISA), which require the coordinated technical and managerial expertise of an executive in the National Office whose sole responsibility is to the EP/EO programs.

District Office Organization (Attachment 4)

1. That a Resources Management Division be established. Consistent with the concept of centralized services at the National and Regional Office levels, the Study Group feels that all support services - Facilities Management, Fiscal Management, Personnel, Security, Training, mass processing, microfilm look-up, and IDRS terminal entry - should be centralized in one division. In this way, support services can be provided on the basis of program need without concerns over organizational boundaries and proprietary interests, and rapid shifts can be made to meet changing priorities. Additionally, duplications inherent in each operating function having its own support activity are eliminated, and the number of IDRS input terminals and associated equipment and communcations lines is substantially reduced. Career opportunities for personnel in support activities would also be enhanced, resulting in the attraction and retention of more highly qualified managers and employees.

2. That all taxpayer information (corresponding to the separation of these activities at the National and Regional Offices) and disclosure functions in the

district office be assigned to the Taxpayer Service Division. In keeping with the concept of centralizing under one manager all service to the public functions, the Study Group proposes that the taxpayer information and disclosure functions be assigned to the Taxpayer Service Division. The combining of all service functions in one organization at the point of delivery should result in a coordinated taxpayer service effort and eliminate any conflict - real or perceived - with the enforcement functions for management attention and resource expenditures.

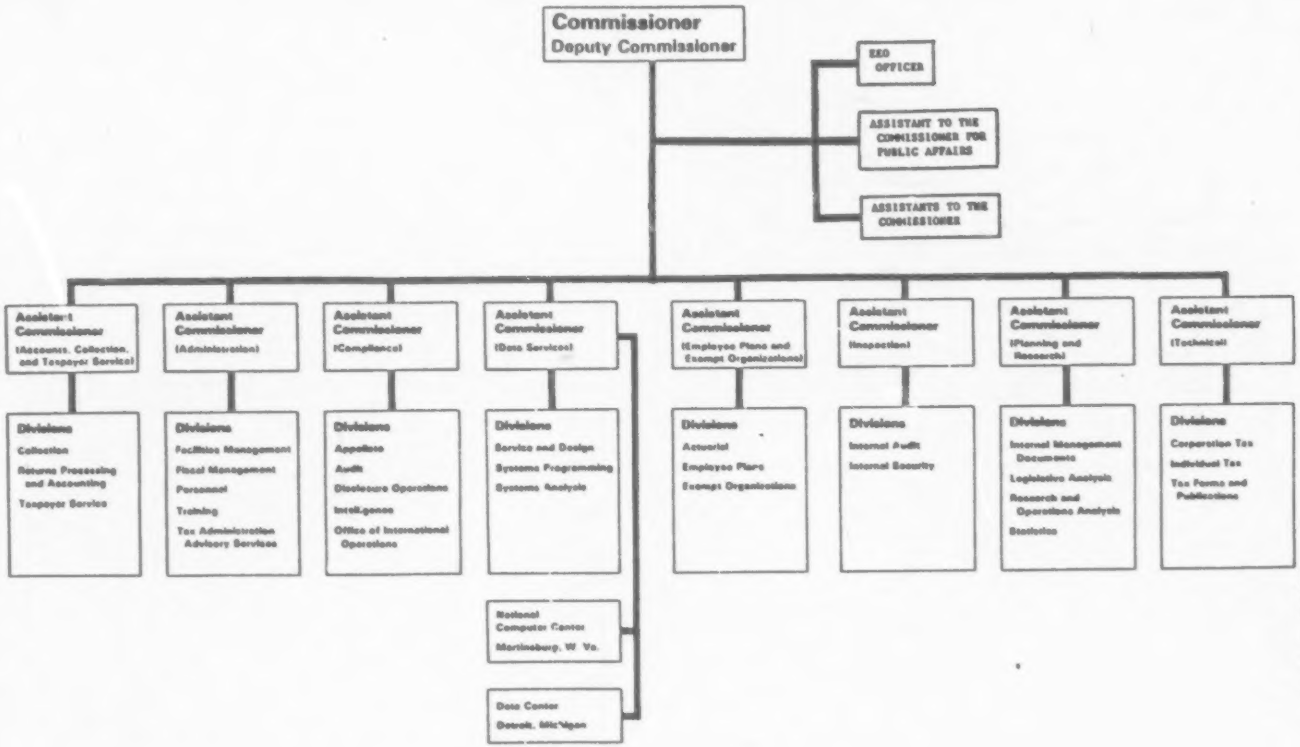
3. That the title of the Audit Division be changed to Examination Division and the Intelligence Division to Criminal Enforcement Division. While the Study Group feels that too much importance can sometimes be placed on organizational titles, it does feel that such titles should accurately reflect to both the public and employees what a particular organization does. In the case of the Audit Division, there has been some feeling that the term "audit" conveys too narrow a meaning. Since the primary function of the Audit Division is the examination of returns and related materials, it is felt that the title "Examination Division" is more appropriate. In the case of the Intelligence Division, the Group was more concerned that the public be misled by the title, which

is used in ordinary parlance to describe information gathering - both open and covert. The mission of the Intelligence Division is the investigation of possible criminal violations of the Tax Code; therefore, the title "Criminal Enforcement" is a more proper and understandable one.

4. That the current nineteen key EP/EO districts be retained. Several proposals to reduce or realign the EP/EO key districts and the associate district offices they service were considered by the Study Group. The Group also studied the possibility of merging EP/EO functions at the district office level into the proposed Examination Division. While all of these suggested changes appeared to have the potential for some modest savings, they also carried the potential for disturbing what is still - particularly in the employee plans area - a developing area with the obvious possibility of disrupting both internal operations and taxpayer relations. Given these foreseeable problems - and the fact that the exact dimensions of the Employee Plans workload are not yet known - the Study Group believes it would be unwise to make any change from the present nineteen EP/EO key districts.

ATTACHMENT #1
PAGE 1 OF 2

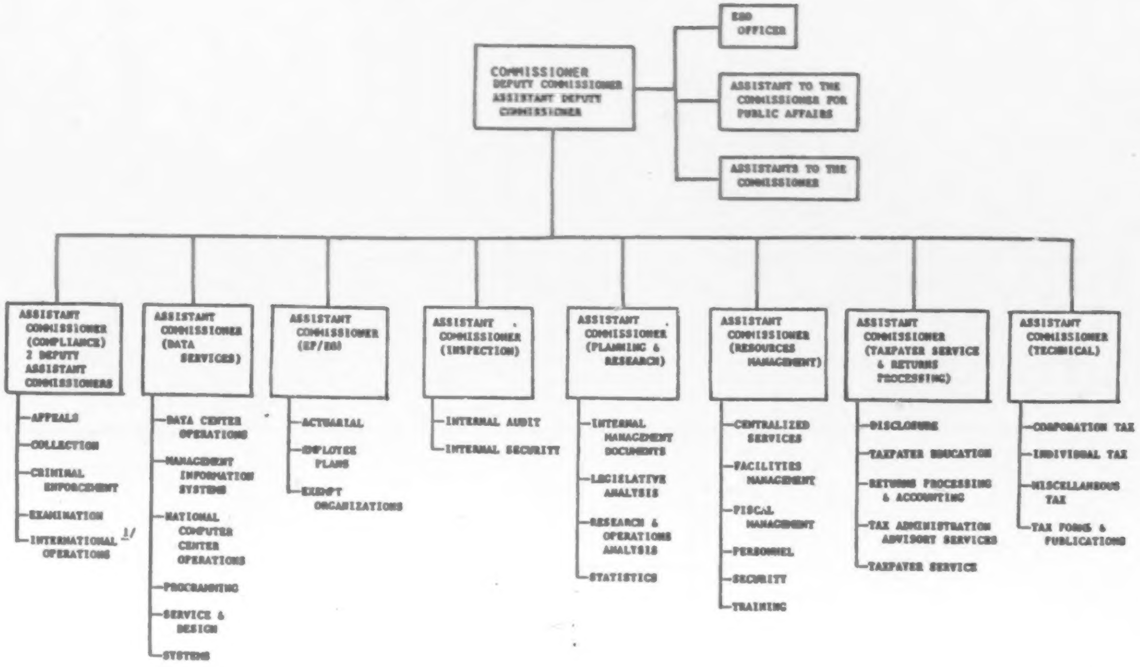
PRESENT NATIONAL OFFICE ORGANIZATION


Commissioner
Deputy Commissioner
EEO OFFICER
ASSISTANT TO THE COMMISSIONER FOR PUBLIC AFFAIRS
ASSISTANTS TO THE COMMISSIONER
Assistant Commissioner (Accounts, Collection, and Taxpayer Service)
Divisions
Collection
Returns Processing and Accounting
Taxpayer Service
Assistant Commissioner (Administration)
Divisions
Facilities Management
Fiscal Management
Personnel
Training
Tax Administration Advisory Services
Assistant Commissioner (Compliance)
Divisions
Appellate
Audit
Disclosure Operations
Intelligence
Office of International Operations
Assistant Commissioner (Data Services)
Divisions
Service and Design
Systems Programming
Systems Analysis
National Computer Center
Martinsburg, W. Va.
Data Center
Detroit, Michigan
Assistant Commissioner (Employee Plans and Exempt Organizations)
Divisions
Actuarial
Employee Plans
Exempt Organizations
Assistant Commissioner (Inspection)
Divisions
Internal Audit
Internal Security
Assistant Commissioner (Planning and Research)
Divisions
Internal Management Documents
Legislative Analysis
Research and Operations Analysis
Statistics
Assistant Commissioner (Technical)
Divisions
Corporation Tax
Individual Tax
Tax Forms and Publications

January 1978

ATTACHMENT #1
PAGE 2 OF 2

PROPOSED NATIONAL OFFICE ORGANIZATION
PRINCIPAL OFFICIALS AND FUNCTIONAL ASSIGNMENTS


COMMISSIONER
DEPUTY COMMISSIONER
ASSISTANT DEPUTY COMMISSIONER
EEO OFFICER
ASSISTANT TO THE COMMISSIONER FOR PUBLIC AFFAIRS
ASSISTANTS TO THE COMMISSIONER
ASSISTANT COMMISSIONER (COMPLIANCE) 2 DEPUTY ASSISTANT COMMISSIONERS
APPEALS
COLLECTION
CRIMINAL ENFORCEMENT
EXAMINATION
INTERNATIONAL OPERATIONS 1/
ASSISTANT COMMISSIONER (DATA SERVICES)
DATA CENTER OPERATIONS
MANAGEMENT INFORMATION SYSTEMS
NATIONAL COMPUTER CENTER OPERATIONS
PROGRAMMING
SERVICE & DESIGN
SYSTEMS
ASSISTANT COMMISSIONER (EP/EO)
ACTUARIAL
EMPLOYEE PLANS
EXEMPT ORGANIZATIONS
ASSISTANT COMMISSIONER (INSPECTION)
INTERNAL AUDIT
INTERNAL SECURITY
ASSISTANT COMMISSIONER (PLANNING & RESEARCH)
INTERNAL MANAGEMENT DOCUMENTS
LEGISLATIVE ANALYSIS
RESEARCH & OPERATIONS ANALYSIS
STATISTICS
ASSISTANT COMMISSIONER (RESOURCES MANAGEMENT)
CENTRALIZED SERVICES
FACILITIES MANAGEMENT
FISCAL MANAGEMENT
PERSONNEL
SECURITY
TRAINING
ASSISTANT COMMISSIONER (TAXPAYER SERVICE & RETURNS PROCESSING)
DISCLOSURE
TAXPAYER EDUCATION
RETURNS PROCESSING & ACCOUNTING
TAX ADMINISTRATION ADVISORY SERVICES
TAXPAYER SERVICE
ASSISTANT COMMISSIONER (TECHNICAL)
CORPORATION TAX
INDIVIDUAL TAX
MISCELLANEOUS TAX
TAX FORMS & PUBLICATIONS

January 1978

1/ Tentative assignment pending results of Task Force Study on OIO organization and functions.

Internal Revenue Service

Budget Estimates
Fiscal Year 1982

☐ Office of Management and Budget Submission

☑ Congressional Submission as Amended

Prepared by:

Office of Assistant Commissioner (Resources Management)

Fiscal Management Division

▶ *CAUTION*

The information contained herein is of a confidential nature and for the use of Internal Revenue Service and other Federal employees of the Executive Branch in the conduct of official Government business. The restriction will no longer exist after the President delivers the annual message to the Congress for the pertinent budget year.

Summary, Internal Revenue Service

THE DEPARTMENT OF THE TREASURY
ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1981
(Dollars in thousands)

	Perm. Pos.	Ave. Pos.	Amount
FY 1981 Appropriation (Continuing Resolution) Enacted by Congress	77,440	89,597	2,357,500
Adjustments:			
(1) Proposed Pay Supplemental:			
a. Total Pay Requirements	--	--	156,290
b. Program Adjustments -- January 1981	- 1,237	- 1,334	- 24,469
c. Program Adjustments -- March 1981	- 1,217	- 611	- 10,078
Net Pay Supplemental	- 2,454	- 1,945	121,743
Authorized Level for FY 1981	74,986	87,652	2,479,243
Estimate, FY 1982	76,247	88,000	2,565,649

DIGEST OF BUDGET ESTIMATES BY APPROPRIATION FISCAL YEAR 1982

	Appropriation FY 1980		Authorized Level FY 1981		Budget Estimate FY 1982		Increase or Decrease (-) for 1982					
							Total Changes		Program Changes		Other Changes	
	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount
1. Salaries and Expenses...	4,551	148,045	4,505	164,008	4,473	168,436	- 32	4,428	48	1,037	- 80	3,391
2. Taxpayer Service and Returns Processing.....	34,335	787,866	33,681	845,767	32,865	864,772	-816	19,005	125	14,836	- 941	4,169
3. Examinations and Appeals.................	30,254	839,387	29,830	900,008	30,274	929,813	444	29,805	558	8,570	- 114	21,235
4. Investigations and Collection.............	18,324	505,541	19,636	569,460	20,388	602,628	752	33,168	887	22,307	- 135	10,861
Unobligated balance..........		7,193										
Appropriation rescinded (Public Law 96-304).......		457										
Total appropriation, authorized level and budget estimate.......	87,464	2,288,489	87,652	2,479,243	88,000	2,565,649	348	86,406	1,618	46,750	-1,270	39,656
Permanent positions authorized................	(77,132)		(74,986)		(76,247)		(1,261)		(1,737) 1/		(-476)	

1/ The estimated cost of filling in 1982 the 1,737 new positions is $36,835,000. This cost includes personnel compensation and benefits, training, travel, material and facilities support, and recognizes that there will be a delay in recruiting.

March 10, 1981

Taxpayer Service and Returns Processing, Internal Revenue Service

THE DEPARTMENT OF THE TREASURY
ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1981
(Dollars in thousands)

	Perm. Pos.	Ave. Pos.	Amount
1981 Appropriation (Continuing Resolution) Enacted by Congress	22,549	34,385	$811,000
Adjustments:			
(1) Proposed Pay Supplemental:			
a. Total Pay Requirements	--	--	$ 47,132
b. Program Adjustments -- January 1981	- 498	- 498	- 12,203
c. Program Adjustments -- March 1981	- 834	- 206	- 162
Net Pay Supplemental	- 1,332	- 704	$ 34,767
Authorized Level for FY 1981	21,217	33,681	$845,767
Estimate, FY 1982	21,822	32,865	$864,772

DIGEST OF BUDGET ESTIMATES BY ACTIVITY FISCAL YEAR 1982

	Appropriation FY 1980		Authorized Level FY 1981		Budget Estimate FY 1982		Increase or Decrease (-) for 1982					
							Total Changes		Program Changes		Other Changes	
	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount
1. Data processing operations	28,093	569,281	27,798	609,452	27,075	613,795	-723	4,343	125	14,836	-848	-10,493
2. Statistical reporting	651	14,898	649	16,220	635	16,533	- 14	313	--	--	- 14	313
3. Taxpayer service	5,591	203,687	5,234	220,095	5,155	234,444	- 79	14,349	--	--	- 79	14,349
Unobligated balance		3,937										
Appropriation rescinded (Public Law 96-304)		457										
Transferred to other Accounts		9,400										
Total appropriation, authorized level and budget estimate	34,335	801,660	33,681	845,767	32,865	864,772	-816	19,005	125	14,836	-941	4,169
Permanent positions established	(21,870)		(21,217)		(21,822)		(605)		(142) 1/		(463)	

1/ The estimated cost of filling in 1982 the 142 new positions is $4,921,000. This cost includes personnel compensation and benefits, training, travel, material and facilities support, and recognizes that there will be a delay in recruiting.

March 10, 1981

Taxpayer Service and Returns Processing, Internal Revenue Service

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1982
(Dollars in thousands)

	Activity 1			Activity 2			Activity 3			Total		
	Pos.	SYrs	Amount	Pos.	SYrs	Amount	Pos.	SYrs	Amount	Pos.	SYrs	Amount
Program Changes:												
1. ADP Equipment Replacement Program ----	142	125	14,836							142	125	14,836
Total Program Changes --------------	142	125	14,836							142	125	14,836
Other Changes:												
Increases necessary to maintain current levels:												
1. Net cost of within-grade salary increases required by statute --------			1,225			99			228			1,552
2. Advancement of trainees --------------									798			798
3. Pay Annualization and Restorations:												
a. To provide for full-year costs of civilian pay increase			241			7			65			313
4. Federal Buildings Fund --------------			7,592			160			1,081			8,833
5. FTS and other communications ---------			1,397			24			2,966			4,387
6. Increased payments to postal service -									650			650
7. Printing --------------------------			1,609			20			9,289			10,918
8. Support services and facilities ------			995			88			739			1,822
9. Increases in high rate geographical areas and mileage rate --------------			145			2			119			266
10. Inter-appropriation transfer ---------	- 5	- 5	- 740				- 1	- 1	- 29	- 6	- 6	- 769
11. Annualization of ADP equipment -------			284									284
Subtotal Other Increases -----------	- 5	- 5	12,748			400	- 1	- 1	15,906	- 6	- 6	29,054
Reductions, nonrecurring costs and savings:												
1. Other Nonrecurring ------------------			- 950						- 591			- 1,541
2. Program Reductions ------------------												
a. March 1981 ----------------------	319	-843	-18,468	19	-14	-87	131	-78	- 966	469	-935	-19,521
Total Program Reductions----------------	319	-843	-18,468	19	-14	-87	131	-78	- 966	469	-935	-19,521
3. Nonrecurring ADP Equipment/Purchase, Lease, and Maintenance --------------			- 3,823									- 3,823
Subtotal Reductions, nonrecurring costs and savings ------------------	319	-843	-23,241	19	-14	-87	131	-78	-1,557	469	-935	-24,885
Total Other Changes ----------------	314	-848	-10,493	19	-14	313	130	-79	14,349	463	-941	4,169
Total Increases or Decreases 1982 Compared with Proposed Authorized Level ----------	456	-723	4,343	19	-14	313	130	-79	14,349	605	-816	19,005

SUMMARY JUSTIFICATION OF FY 1982 BUDGET ESTIMATES

Taxpayer Service and Returns Processing Background

The Taxpayer Service and Returns Processing Appropriation provides funding for three activities; Data Processing Operations, Statistical Reporting, and Taxpayer Service.

The Data Processing Operations Activity encompasses receiving and processing tax returns, issuing refunds and notices, accounting for revenues, and developing and maintaining all Service computer systems. Statistical Reporting includes preparation of statistical information on income and other aspects of the tax system. Taxpayer Service aids voluntary compliance with Federal Tax Laws on the part of all taxpayers by informing them of their responsibilities, by providing service which will assist them in meeting their obligations, by responding to requests for disclosure of official information, by performing safeguard reviews of agencies which receive confidential tax information; and by providing foreign, state and local tax administration assistance.

This appropriation funds the Returns Processing and Accounting, Taxpayer Service, Disclosure Operations, and Tax Administration Advisory Services (TAAS) Divisions in the National Office; the Office of the Assistant Regional Commissioner (Taxpayer Service and Returns Processing), Taxpayer Service and Disclosure field operations; and the ten IRS service centers.

Also included in this appropriation are funds for the Statistical Reporting Activity, which is comprised of the Statistics Division in the National Office and the field operations related to the Statistics program in the Detroit Data Center and the ten IRS service centers. The Assistant Commissioner (Planning and Research) is responsible for the Statistics program.

In addition, this appropriation funds the Data Services' function, which includes the Tax Systems Division, Management Systems Division, Systems Support Division, and Systems Development Office in the National Office; the National Computer Center in Martinsburg, West Virginia; the IRS Data Center in Detroit Michigan; computer branches in the ten IRS service centers; and staff in the seven IRS regional offices. Data Services provides comprehensive developmental and operational data processing support for the Service, including the development, implementation, and evaluation of computer systems, software, and hardware requirement and implementation of the ADP Equipment Replacement Program.

FY 1982 Program

These resources would maintain most programs in FY 1982 at levels estimated for FY 1981, including the Information Returns Program, continuing the ADP Equipment Replacement Program and providing services to taxpayers.

The budget proposal for the Taxpayer Service and Returns Processing Appropriation totals 32,865 average positions and $864.8 million, a decrease of 816 average positions and an increase of $19 million over the revised FY 1981 level.

1. Data Processing Operations

This activity provides for the accounting of tax revenues and the processing of tax returns and related documents at the IRS service centers.

The Data Processing Operations Activity has a number of major responsibilities:

- depositing tax receipts and maintaining general and subsidiary ledgers of tax revenue collected;
- processing tax returns, federal tax deposits and associated documents;
- computing tax liability;

- providing tax data for individual and business master files;
- issuing tax bills and notices of delinquency, and establishing delinquent accounts;
- issuing refunds and preventing duplicate refund payments;
- maintaining all ADP systems including those affected by new legislation;
- implementing systems modifications as required to maintain an effective system of processing tax returns and supporting documents;
- providing support through ADP technology for compliance functions;
- answering taxpayer inquiries for account information, refund status, extensions of time to file, etc.;
- comparing information documents with tax returns to provide investigative leads of potential failures to file required tax returns, and identifying instances of overreporting and underreporting of tax liability; and
- operating the Service's internal reporting system and providing statistical information for management control purposes.

The establishment of national master files of tax accounts through data processing has opened avenues not only to the improvement of voluntary compliance, but also to the goals of better taxpayer service and equal treatment of taxpayers. The following is an illustration of benefits to the taxpayer and to the Government as a result of math varification and validation of estimated payments:

MATH VERIFICATION AND VALIDATION
OF ESTIMATED PAYMENTS 1/

Fiscal Year	Under-payments (millions)	Over-payments (millions)	Offsets 2/ (millions)	Gross 3/ Yield (millions)	Net 4/ Yield (millions)
1980	$1,871.1	$1,209.1 5/	$579.7	$3,659.9	$1,241.7
1979	$1,566.4	$ 690.2	$393.7	$2,650.3	$1,269.9
1978	$1,281.6	$ 574.0	$360.5	$2,216.1	$1,066.1
1977	$1,107.8	$ 665.6	$273.6	$2,047.0	$ 715.8
1976	$ 925.5	$ 511.2	$247.7	$1,684.4	$ 662.0

1/ This table reflects the results of math verification for individual returns and validation of estimated payments on individual returns. Corporate, Employment, Exempt Organization, Employee Plans and other types of returns yield minimum amounts.

2/ Offsets are dollars of overpayments applied to existing liabilities.

3/ Gross Yield is the total of underpayments, overpayments, and offsets.

4/ Net Yield is the total of underpayments, less overpayments, plus offsets.

5/ FY 1980 was the first year taxpayers who had not claimed earned income credits received them under the math verification program. In addition, some taxpayers erroneously included certain amounts of unemployment compensation as taxable income. These two items contributed to a significant increase in math verification overpayments.

FY 1982 Program

A net decrease of 723 average positions is proposed for Data Processing Activity: 843 average positions represent the scaling down of selected programs in an effort to reduce expenditures. These program reductions and the transfer of five administrative positions to Management Services is partially offset by an increase of for 125 average positions to continue development of new systems designs, hardware specifications and software packages for the ADP Equipment Replacement Program. Included in the total request for FY 1982 are 261 average positions to administer provisions of the Crude Oil Windfall Profit Tax Act of 1980.

A. ADP Equipment Replacement Program.............
.........................125 average positions

The Service has program approval and is continuing with the replacement and modernization of its ADP hardware and software systems. These systems will have the capacity to allow future growth in workload and the flexibility to use a more advanced, high level programming language.

During the next six years, the Internal Revenue Service will request funds for ADP equipment, facilities , develomental personnel, and training to accomplish the change over to modern ADP software and equipment. The initial phase of this plan, the Service Center Replacement System phase, will require $14.8 million in additional budget authority in FY 1982 to reimburse GSA for site alterations in the last five service centers ($1.6 million); to purchase the test system and pilot system for the first service center ($8.3 million); and to provide 125 additional average positions ($4.9 million) for conversion to the new system. Approval of prospectuses for alterations at the four government-owned Service Centers by the House and Senate Public Works Committees, who have received them from the GSA Adminstrator, is required by June 15, 1981, to prevent delays in the replacement effort.

B. Interappropriation Transfer......... ....
............................-5 average positions

This represents the tranfer of the adminstrative and training support function to the Management Services Activity.

C. Program Reduction ....-843 average positions

Current estimates indicate that approximately 140.8 million primary returns will be received and processed in FY 1982, 1.5 million more than currently projected for FY 1981. The Service requires about 417 additional average positions for FY 1982 to process the additional returns, schedules, notices and tax bills; issue refunds promptly, detect duplicate refund payments; answer increased taxpayer inquiries for account information and refund status; and requisite administrative support.

This requirement can be offset by productivity savings of about 417 average positions as follows:

(a) Acceleration of Balance Due Notices - Modifications to the manner of which we process certain types of business tax returns involving payment discrepancies will result in estimated savings of 77 average positions. This computerized analysis system for reconciling discrepancies faster will also cause cash management savings to accrue.

(b) Elimination of District Office (DO) Sort - Alternative means of providing IRS operating programs with returns filing information stratified by district, were implemented in FY 1981. The elimination of the current manual sorting and batching by district will save approximately 175 average positions, with 40 average positions of savings being realized in FY 1982 (135 average positions of savings were declared in FY 1981).

(c) Productivity Goal - The remaining portion of the productivity savings represents an additional productivity goal (300 average positions). Every effort will be made to achieve this goal. Work accomplishment forcasts presume we will succeed. To the extent we do not, program accomplishments will fall below the forecasts in this request.

As a result of the reduction of 843 average positions, the Service will curtail some of its efforts to match information secured from other sources with tax return data, to compile information on the return preparer industry; to monitor certain tax code sections for subsequent year effect and to provide timely distribution of tax forms and instructions.

Selected Workload Data
(In thousands of returns)

	FY 1980 Actual	Estimate in FY 1981 Congressional Budget	Current Year's Estimate for FY 1981	FY 1982 Estimate
1. Primary Tax Returns filed:				
a. Individual	93,143	94,887	94,683	95,706
b. Individual Declaration	8,699	8,661	8,685	8,776
c. Fiduciary	1,877	2,038	2,002	2,100
d. Partnership	1,390	1,379	1,401	1,445
e. Corporation	2,718	2,616	2,758	2,855
f. Estate	148	139	153	145
g. Gift	216	230	228	241
h. Employment	26,499	26,320	26,525	26,639
i. Exempt Organizations	444	543	470	483
j. Employee Plans	792	975	770	792
k. Alcohol, Tobacco and Firearms Returns	547	528	558	559
l. Excise	909	899	1,042	1,044
Total Primary Returns	137,382	139,215	139,275	140,786
2. Selected Supplemental Documents	6,064	6,325	6,459	6,911
3. Individual Refunds Scheduled	72,314	71,106	73,526	74,551

2. Statistical Reporting

The Statistics Division, under the direction of the Assistant Commissioner (Planning and Research), is responsible for preparing annual statistical information on the operation of income tax laws as required by the Internal Revenue Code; and for providing basic information for tax studies and legislation for the Congress and its committees, for administrative use by the Secretary of the Treasury and the Commissioner of Internal Revenue, and for the Federal benchmark statistical programs on income, wealth and finance. It also supports the operational components of the Revenue Service through statistical analyses, workload projections, and the application of scientific sampling procedures.

FY 1982 Program

The reduction of 14 average positions will impact on the Statistics of Income Program through reduced sample sizes for individual and corporate returns, which in turn will reduce both number of tabulations and the amount of detail shown.

Also included in the total request are five average positions to provide statistical support in administering provisions of the Crude Oil Windfall Profit Tax Act of 1980.

3. Taxpayer Service

The mission of Taxpayer Service is to help taxpayers voluntarily comply with the tax laws through a year-round program of providing accurate information and direct assistance. Taxpayer Service is responsible for explaining Federal Tax requirements, assisting with the preparation of tax returns, and providing information to taxpayers regarding the status of their accounts, and for providing technical tax administration assistance to foreign countries and state and local governments in accordance with the provisions of the Foreign Assistance and Intergovernmental Personnel Acts.

This activity also funds the Disclosure Operations function which is responsible for protecting the confidentiality of tax returns and return information, and the taxpayers' rights to privacy, while administering the disclosure provisions of the Internal Revenue Code, the Freedom of Information Act, and the Privacy Act of 1974.

FY 1982 Program

Resources requested for FY 1982 reflect a reduction of 79 average positions, but will allow us to assist the same number of taxpayers as in FY 1981 by shifting emphasis from walk-in assistance to the toll-free telephone system, which allows the greatest numbers of taxpayers access to tax assistance for the least cost to the Service. However, due to growth in population and demand for assistance, we will be responding to a smaller portion of taxpayers seeking assistance than in prior years. Furthermore, about ten percent, or approximately 4,000, of the Freedom of Information and Privacy Act requests will not be answered promptly, creating a cumulative backlog. On-site safeguard reviews of agencies which receive confidential tax information will be limited to only those with known deficiencies, with a written certification being accepted from others. Functional reviews to assure compliance with the Privacy Act will be reduced to a sample basis. The decrease in average positions for FY 1982 results from the following:

--shift from walk-in to telephone service and reduction in tax forms distribution (-65 average positions)

--reduction in disclosure operations (-13 average positions)

--interappropriation transfer to Management Services for continuing professional education (-1 average position).

Also included is an increase of $650,000 to upgrade existing toll-free equipment and continue with consolidation of telephone answering sites.

Taxpayer Service Resources and Program Performance

The following table shows the relationship of the levels of operation in FY 1980, FY 1981, and FY 1982 for the Taxpayer Service Activity:

Average Positions	1980 Actual	1981 Estimate	1982 Estimate
Full-Time Permanent			
Taxpayer Service Specialists	671	633	703
Taxpayer Service Representatives	1,070	1,022	1,127
Other	1,498	1,467	1,441
All Other WAE/Part-Time/ Temporary	2,118	1,917	1,689
Details			
Revenue Officers	28	22	22
Tax Auditors	85	74	74
Revenue Agents	121	99	99
Total Average Positions	5,591	5,234	5,155
Selected Workload Data			
Taxpayers Assisted (in millions)	43.0	39.3	39.3
Walk-In	8.4	8.0	6.3
Telephone	34.5	31.2	32.9
Correspondence	.1	.1	.1
Taxpayer Education (in thousands)	5,603	5,704	5,407
VITA Volunteers	53	60	65
Practitioner Institute Participants	74	78	62
Small Business Program Participants	63	66	40
Individual Tax Education Program Participants	47	50	40

Taxpayer Service and Returns Processing, Internal Revenue Service

School Program			
Student Publication Orders	5,366	5,450	5,200
Disclosure Requests (in thousands)	80.0	80.0	76.0
Safeguard Reviews	223	140	28
TAAS Assignments			
Overseas	24	24	19
Domestic	7	4	4
International Visitors			
Programs Developed	126	100	100
Visitors Accomodated	406	400	400

March 10, 1981

INTERNAL REVENUE SERVICE

Federal Funds

General and special funds:

TAXPAYER SERVICE AND RETURN PROCESSING

For necessary expenses of the Internal Revenue Service for processing tax returns; revenue accounting; providing assistance to taxpayers; statistical reporting; and hire of passenger motor vehicles (31 U.S.C. 638a(a)); ~~$908,918,000~~. (Title 26, United States Code.)
$864,772,000.

Taxpayer Service and Returns Processing, Internal Revenue Service

SELECTED WORKLOAD DATA
(in thousands)

	1980 Actual	1981 Program in 1981 Budget	1981 Program in 1982 Budget	1982 Estimate	Percent Increase Over 1981
1. Primary tax returns filled..........	137,382	139,215	139,275	140,786	1.1
2. Supplemental documents..............	6,064	6,325	6,459	6,911	7.0
3. Individual income tax returns:					
a. Individual income tax returns to be filed......................	93,143	94,887	94,683	95,706	1.1
b. Refunds scheduled...............	72,314	71,106	73,526	74,551	1.4
4. Taxpayers assisted (contacts).......	43,000	40,300	39,300	39,300	--

Taxpayer Service and Returns Processing, Internal Revenue Service

SUMMARY OF EMPLOYMENT (NUMBER AVERAGE POSITIONS)

Principal Categories	Actual 1980	Estimated 1981	Estimated 1982	Increase or Decrease (-) for 1982 Total	Increase or Decrease (-) for 1982 Program Increase	Increase or Decrease (-) for 1982 Other
1. Data Processing Operations						
Full-time permanent	17,296	16,946	16,819	-127	125	-252
All other	10,797	10,852	10,256	-596	--	-596
Total	28,093	27,798	27,075	-723	125	-848
2. Statistical Reporting						
Full-time permanent	560	582	568	- 14	--	- 14
All other	91	67	67	--	--	--
Total	651	649	635	- 14	--	- 14
3. Taxpayer Service						
Revenue Agents	121	99	99	--	--	--
Tax Auditors	85	74	74	--	--	--
Revenue Officers	28	22	22	--	--	--
Taxpayer Service Reps	1,070	1,022	1,127	105	--	105
Taxpayer Service Spec	671	633	703	70	--	70
Other full-time permanent	1,498	1,467	1,441	- 26	--	- 26
Total full-time permanent	3,473	3,317	3,466	149	--	149
All other	2,118	1,917	1,689	-228	--	-228
Total	5,591	5,234	5,155	- 79	--	- 79
Appropriation Total						
Full-time permanent	21,329	20,845	20,853	8	125	-117
All other	13,006	12,836	12,012	-824	--	-824
Total	34,335	33,681	32,865	-816	125	-941

March 10, 1981

Budget Estimates—Program Summary

Fiscal Year 1983
Treasury Submission

Department of the Treasury
Internal Revenue Service

INTERNAL REVENUE SERVICE
FISCAL YEAR 1983 BUDGET PROPOSAL
PROGRAM SUMMARY STATEMENT

The IRS Mission and Underlying Assumptions

The mission of the Service is to encourage and achieve the highest possible degree of voluntary compliance with the tax laws and regulations. The underlying premise of this mission is that accurate self-assessment of tax due by taxpayers and a corresponding timely payment of that tax constitutes the most cost effective and least burdensome method of tax administration. This assumption can be supported by a comparison of the administrative costs of the Internal Revenue Service with the tax administration agencies of other industrialized nations, which would show U.S. tax administration to be much less expensive per dollar collected.

The Service's approach to encouraging the level of voluntary compliance necessary to maintain our self-assessment system rests on certain basic assumptions. These are:

- A substantial segment of the taxpaying population requires information or assistance in order to meet their tax filing obligations. The tax laws are complex and where the need for assistance is not already met through the private sector, the government has a basic obligation to respond to taxpayers who seek assistance. Also, timely assistance helps reduce errors or non-compliance which require subsequent correction or enforcement action.

- The willingness of taxpayers to file tax returns, correctly assess their liability and make timely payment is heavily influenced by their perception that these actions will be required if not done voluntarily. Taxpayer compliance with the law is assumed to be dependent to a significant degree on public confidence that the IRS is able to identify noncompliance and will take remedial action.

- The civil compliance and enforcement procedures of the Service are enhanced if they are backed up by the judicious, publicized use of criminal sanctions to address cases of flagrant tax evasion.

- Taxpayer compliance can be undermined if the public does not also have confidence in the integrity and evenhandedness of the Service. Consequently, IRS employees have a responsibility to administer the tax laws uniformly, efficiently, fairly, courteously, and with scrupulous regard for the privacy of tax information. Constant reinforcement of integrity awareness among all employees is essential.

Current Situation and Policy Issue

The Internal Revenue Service has a unique mission among federal agencies. It is responsible for the income side of the federal budget, accounting for about 90 percent of all federal receipts. All government operations depend on IRS's capability to administer the tax laws fully and effectively and to assure that the revenues that are legislated are received.

Always important, effective tax administration is even more crucial now in view of the overriding need to reduce federal borrowing and to put the government on a pay as you go basis. We believe that a more modern, more effective tax administration system is essential in the coming years if the government is to meet its various responsibilities while living within its means. We see this as a significant issue and a key element in the Administration's fiscal policy.

The tax administration system today is in many ways seriously inadequate to its task and faces major tax compliance problems. The consequence of not dealing with this situation in a planned and consistent way will not be limited to just one program in government, IRS. It will influence the ability of the government, generally, to meet its objectives within a balanced budget.

- All of the evidence available shows deterioration in the percentage of tax liability voluntarily reported, both among individuals and corporations.
- Studies estimate that the underground economy approaches $100 billion in undocumented, untaxed income from legal sources alone.
- Abusive tax shelter schemes have reached epidemic proportions. This is occuring more and more among middle income classes where contemplated marginal rate reductions would have decreasing effect.
- The frequency and extent of illegal tax protest schemes, such as false withholding statements, have increased.
- The government is sustaining a large and growing annual revenue loss ($20 billion on 1980 individual returns)... a windfall tax cut to those avoiding their obligation and a substantial additional federal borrowing burden that is being carried by the honest taxpayer.
- Important measures of IRS's capacity to keep pace with a growing and more complex workload are a cause of serious concern:
    - Frequent major tax legislation, from the Tax Reform Act of 1976 to the Windfall Profit Tax of 1980, have absorbed most IRS staffing increases over the past several years.
    - Complex returns filed (with income over $50,000) will be up from 1.6 million in 1980 to 5.1 million in 1983, a 200 percent increase.
    - The number of corporation returns will grow from 1.970 million to 2.223 million (12.8 percent) between 1980 and 1983.
    - Percent of returns examined has declined by 25 percent since 1977 to an all time low of 1.83 percent in 1982.

  - The inventory of unpaid tax accounts will have increased from 844 thousand ($2 billion) in 1977 to 2.1 million ($6.3 billion) in 1982.
  - The unworked inventory of delinquent return investigations will grow from 210,000 to 428,000 (100 percent) over the same 1977-82 period.
  - The amount of disputed tax assessment awaiting appeals settlement will have doubled between 1977 and 1982, from $7 billion to $14 billion.
  - Tax litigation case inventory is growing at a rate of over 25 percent a year.

o The Service's ADP systems, now up to 17 years old, are wearing out and are grossly short of the capacity and modern state-of-the-art efficiency that is essential for an effective tax system in the 1980's. The Service is slipping far behind in realizing the potential for automated techniques to make strides in productivity and to enhance tax compliance operations.

The strategy and related investments to turn this situation around and put the country's tax system back on a strengthening rather than weakening course is the central policy consideration for the Service.

Strategies and Objectives

The Service's strategy for promoting high tax compliance and assuring the flow of legislated revenues to the Treasury has three major components. The first component consists of efforts to facilitate compliance with the law, making it as simple as possible for taxpayers to meet their tax obligations. Such programs as providing taxpayers with general tax information and assistance, and help in resolving disputes; processing returns and issuing refunds promptly; providing an administrative appeals system to settle tax cases without unreasonable delay; returns preparation (in selected cases); issuing general information documents, regulations and rulings; mailing out forms, schedules, and instructions; and assuring taxpayers access to IRS regarding tax account status are all facilitative programs.

The second component addresses situations where taxpayers have made errors. As a part of the Service's returns processing system, checks are made to detect claims for unallowable items, correct mathamatical errors, send notices to those who have not filed or failed to make full payment of liability, and bring unreported income to the attention of the taxpayer. These programs, largely computer based, can be categorized as error correction programs. The Service's Problem Resolution Program (PRP) makes it possible to solve difficult taxpayer problems effectively and spot shortcomings in the system that creates problems.

The third strategic component involves identification, correction, and deterrence of non-compliance through enforcement action; the Examination, Collection and Criminal Investigation Programs fall within this category. The Examination program provides a broad compliance presence designed to assure that taxpayers are reporting all taxable income and correctly stating exemptions, deductions, and credits. The Criminal Investigation Division takes selected leads from the Examination and Collection programs for development of criminal cases, thereby strengthening the deterrent effect of examinations. The Collection program assures that taxes assessed are paid and that required returns are filed. As a final step in enforcement, issues unable to be resolved administratively are litigated in Tax Court by Legal Services attorneys or forwarded to Department of Justice or U.S. Attorneys for adjudication in another court.

Each of these three stategic components of tax administration is essential. Any realistic budget proposal must maintain reasonable balance among them. A tax system based on self assessment could not long withstand failure to provide the taxpayer with the necessary materials and information to file. The withholding system depends, in large part, on the Service's ability to maintain accurate accounts and issue refunds promptly. The government cannot reasonably impose a complicated tax law and be unwilling to answer taxpayers requests for clarification and guidance. The correction of inadvertent error is key to the public's confidence in the efficiency and competence of the tax system. Finally, failure to deal with non-compliance, both civil and criminal, would soon lead to wholesale erosion of voluntary compliance.

For these reasons the Internal Revenue Service's budget estimates and program ranking attempt to maintain this essential balance at all levels.

Objectives

The proposal for FY 1983 would expand the IRS workforce by approximately 5 percent (about 4,800 average positions) and $313 million. The objective is to enable IRS in 1983 to cope with growth in workloads and in some cases to provide modest improvement in our tax enforcement capability. Most of these new jobs would go to Examinations, Accounts Receivable, the Information Returns Program, Delinquent Returns, Appeals, and Legal Services. Comparatively small increments of staff are proposed for other, smaller programs where they are essential to the Service's three-part strategy for effective tax administration. A small but vital staff and dollar increase (8 average positions and $1.7 million) is also included for the Service's Planning and Research function, an important in-house source of continuing efficiency and productivity savings generated through implementation of research findings.

While this proposed additional staffing represents a necessary - and highly cost beneficial - step toward sound tax administration, the objective can not be reached without extensive modernization through capital investments. This budget calls for 1983 expenditures of $55 million to update existing ADP equipment and to introduce new automated technology into IRS operations. This is key to any strategy of recovery for tax administration.

Nearly half of this proposed 1983 investment is necessary to keep the Equipment Replacement Program (ERP) on schedule. This too long delayed initiative to get the basic tax account system onto modern, reliable and efficient computers that have adequate capacity, must go forward if we are to have a workable automated tax system at all in the near future.

Other major investments include (a) replacement of the direct data entry system ($5 million) to improve the reliability and efficiency with which tax return data is transcribed from returns directly into the processing computers; (b) testing a new automated collection system ($3 million) which makes use of automated case control linked with an intensive telephone call program to speed the collection of past due accounts; (c) implementing optical character recognition (OCR) for FTD processing in the ten service centers ($4.3 million); (d) introducing micro computers into field offices for rapid computational support to revenue agents, revenue officers, taxpayer service representatives, and modernize the Services' management information systems ($2.7 million); (e) installing zip code presorting equipment ($3.5 million), for which anticipated postage savings have already been discounted from our budget.

This budget also recognizes the need for greatly improving the training of IRS employees. We clearly need to invest now in higher technical proficiency in order to get full value for staff years spent and to heighten employees' sensitivity and judgment in dealing with taxpayers. This will also reduce the incidence of the kinds of actions that shake public confidence in the Service.

Beyond this basic budget request for FY 1983, an improvement option is recommended. This would significantly step up direct enforcement and selected other programs, adding about $570 million in revenue at a cost of about $62 million in budget authority (2,400 average positions).

Accomplishments for FY 1982

The FY 1982 budget request currently pending before Congress is significantly lower than the January request; however, the revised budget will provide for the continued implementation of Phase I of the Equipment Replacement Program and the processing of about 141 million returns. Gross revenue collected during this processing should equal about $650 billion. But, the level of support that our service centers can provide the compliance and enforcement programs will decrease. Certain programs, such as matching employee W-2's with related employer W-3's and correcting erroneous taxpayer identification numbers for information returns matching must be reduced or eliminated. Taxpayer Service will answer about 32 million calls, up almost 2 million from FY 1981, while walk-in taxpayer assistance will drop by over 20 percent.

Resources for the Delinquent Returns program have been increased in 1982 for the stepped up effort to identify and correct false or invalid Form W-4 withholding statements. Assessments from the Delinquent Returns Program will total about $1.9 billion, up $340 million from FY 1981. The W-4 investigations account for most of this increase. Revenues collected by the Accounts Receivable program will increase $340 million from FY 1981, for a total in FY 1982 of $6.2 billion; however, because of increasing delinquencies, the inventory of uncollected accounts will exceed 2 million representing $6.3 billion. Unpaid accounts will rise by almost 400,000 and $1.203 billion.

Examinations and single issue contacts will increase from FY 1981. Examinations will be up by almost 155,000 and single issue contacts by 192,000. Assessments will increase by about 8 percent or $526 million, but the percentage of returns examined will continue to drop -- from 1.88 to 1.83 percent.

Even with a slight increase in resources for Legal Services, cases in the litigation inventories will continue to rise by over 30 percent (from 80,149 in FY 1981 to 106,309 in FY 1982).

Accomplishments at Various FY 1983 Levels

Minus 10 percent in staffing: At this level, virtually the only programs that would remain intact, by 1982 standards, would be the master file system and the processing of returns filed. Walk-in taxpayer assistance would be eliminated and we would be unable to maintain the time table for the Equipment Replacement Program. At this level, the Service would still have to provide for unavoidable cost increases such as the GSA rate increase for space and housing, the telephone service tariff increases and the March 1980 postal rate increases.

In the enforcement areas, there would be some 341,000 fewer examinations and 236,000 fewer single issue contacts than planned for FY 1982, which would cut the audit coverage rate to a new low, 1.51 percent. The Service would maintain the initiative to combat W-4 abuse -- over 850 average positions would be devoted to this program. Programs that support the enforcement areas such as Appeals and Legal Services would fall further behind the pace of new workload and their end of year case backlogs would be completely unmanageable.

Reductions to the enforcement programs would lower Service costs by about $96 million but would reduce assessments and collections by over $1.1 billion. The inventory of delinquent tax accounts would increase by $1.9 billion reaching a total of $8.2 billion.

Minus 5 percent in staffing: At this level, the Service would continue to implement the Equipment Replacement Program, begin to replace the worn out data entry equipment in the ten service centers and restore a portion of the taxpayer walk-in assistance programs.

In the enforcement areas, there would be about 208,000 fewer examinations and 158,000 fewer single issue contacts than planned for FY 1982 which would lower the audit coverage rate from 1.83 percent to 1.63 percent. Assessments would be about $243 million less than that expected for FY 1982. The enforcement support programs, Appeals and Legal Services, would not be able to keep current with their workload, their case backlogs would increase by about 10,000 and 29,000 respectively.

Current level of staffing: The Service would provide a balanced but reduced program of walk-in and telephone assistance for taxpayers. Productivity improvement investments such as the Automated Collection System, Optical Character Recognition for FTDs, Revenue Accounting System, and Zip Code Presort would be possible at this funding level.

In the enforcement areas, examinations and single issue contacts would fall short of that planned for FY 1982 (110,000 less in examinations and 132,000 less in single issue contacts). The audit coverage rate would be 1.72 percent of returns filed. Assessments and collections, however, would increase by about $370 million over that anticipated for FY 1982. The unpaid accounts inventory would go up by about 400,000 and $1.2 billion over FY 1982's level.

Plus 5 percent in staff: Telephone taxpayer assistance would be partially restored to meeting the level of demand achieved in FY 1982.

For the first time in seven years, the audit coverage rate would be going up rather than down. About 1.87 percent of returns would be examined, 53,000 more than in 1982. Over 200,000 more single issue examination contacts would be completed in FY 1983. Assessments and collections would increase by nearly $1 billion. However, even at this level the Service could not prevent growth of about 265,000 accounts and $800 million in delinquent tax status.

Plus 8 percent staffing: An additional increment of 2,400 average positions would put tax administration in a significantly improved position in 1983 to administer the tax laws more effectively both in terms of taxpayer service and enforcement. Substantial additional revenue could be brought into the Treasury with this further investment.

Question of Reallocation

Among the special issues that have been raised is the feasibility of reallocating resources into direct tax compliance efforts from other programs. The Service's program ranking deals with this issue in that it assigns priority among programs consistent with the Service's strategy for promoting voluntary compliance.

As indicated earlier, an effective strategy to achieve and maintain high voluntary compliance requires more than direct enforcement. It requires providing taxpayers with the information and assistance they need in order to comply. And it requires the maintenance of accurate accounts and correction of inadvertent error if public confidence in the system is to be maintained. All IRS programs have an essential role in this three part strategy. Appropriate balance among programs is therefore an important budget consideration.

There are practical limitations as well on the extent to which reallocation is feasible.

About 55 percent of the Service's budget is already applied to the direct enforcement programs of Examination, Collection, and Tax Fraud investigations. Another 5 percent is applied to following through on taxpayers' administrative appeals and litigations. An additional 28 percent is needed to provide taxpayers with the forms and instructions they need and to process their returns.

The remaining 12 percent is divided among smaller programs such as Taxpayer Service, Technical Rulings and Services, Employee Plans/Exempt Organizations, Statistical Reporting, Internal Audit and Internal Security and headquarters functions providing planning and direction of Service operations.

Reallocation on a scale that would be significant to the major enforcement programs would do severe damage to these smaller activities which play essential roles in effective tax administration and carry out legislated IRS responsibilities.

INTERNAL REVENUE SERVICE
OPTIONAL ADDITIONAL INVESTMENT

With an additional investment of 2,400 average positions and $62 million, the Service could improve its position in FY 1983 to administer the tax laws more effectively both in terms of taxpayer service and enforcement and also increase revenues by about $569 million.

Over half of this investment centers around enforcement programs. We would be able to secure 270,000 additional delinquent returns for $303 million in assessed tax and penalties, and collect another 324,000 unpaid accounts for about $234 million. In addition, another $50 million in revenue assessments would result from the financing of 180,000 more underreporter closures in the document matching program.

The remainder of this investment provides for necessary support and follow-through on compliance and enforcement actions. Legal Services would be better able to deal with the backlog of tax litigation; the examination coverage rate for tax exempt organizations would be improved; we would respond to about 6,300 additional taxpayer inquiries bringing the level of telephone service up to that planned for FY 1981; criminal investigative efforts could be stepped up in such areas as illegal tax protestors, narcotics traffickers, and questionable refunds; the Service would have better capacity for prompt resolution of taxpayer problems and to assure a high standard of employee integrity through its internal security program.

The additional incremental investment by program is shown below:

	Average Positions	Amount ($000)
Delinquent Returns	649	$ 16,808
Accounts Receivable	599	14,126
IRP	139	3,142
Exempt Organizations	193	6,341
Internal Security	36	1,102
Legal Services	323	10,157
Tax Forms and Publications	122	1,647
Taxpayer Service	166	4,150
Tax Fraud	100	3,650
PRP	43	1,333
Total Additional Average Positions and Amount	2,370	62,456
Total Additional Assessments and Collections		$570,000

PROGRAM SUMMARY STATEMENT

Bureau: Internal Revenue Service

Program Unit Number: 09-09

Program Name: Taxpayer Service

Appropriation Code: 20-0912-0-1-803

A. Mission Statement - The Taxpayer Service Program enables taxpayers to voluntarily comply with tax laws and regulations through a year-round program of providing accurate information and assistance. Taxpayer Service also provides technical assistance in tax administration to foreign, state and local governments in accordance with the provisions of the Foreign Assistance and Intergovernmental Personnel Acts.

B. Program Description - The Taxpayer Service Program provides year-round tax information and assistance in 58 district offices and in various foreign countries through the Office of International Operations. The program is designed to balance the needs of all segments of the public, attempting to maximize the number of taxpayers assisted and at the same time meet the needs of special groups such as the elderly, low-income, and physically handicapped. Assistance ranges from explaining complex technical provisions of the tax code and answering questions concerning tax account status to questions on how and where to file returns, and furnishing forms requested by taxpayers. In addition, Taxpayer Service devotes over 50% of the time required to resolve problems surfaced through the Problem Resolution Program. Taxpayer assistance is provided by three principal methods: telephone assistance, primarily through a toll-free network; assistance to taxpayers who write or walk into Internal Revenue Service offices; and taxpayer information and education programs, including efforts targeted for special groups. During Fiscal Year 1982, about 4200 seasonal employees will augment the Taxpayer Service permanent work force to respond to about 32 million telephone, about 6.3 million walk-in and about 100,000 written inquiries from taxpayers.

Telephone Assistance - The toll-free telephone system, centralized in 55 answering locations, provides tax assistance without the cost of a long distance call. This service covers all of the United States, Puerto Rico and the Virgin Islands. Deaf and hearing-impaired taxpayers are provided the same assistance through the television/telephone/teletypewriter toll-free system. In Fiscal Year 1982 approximately 80% of the Taxpayer Service workload will be handled through telephone assistance.

Walk-In Assistance/Correspondence - Includes answering taxpayer questions, preparing or assisting in the preparation of returns, reviewing completed returns and furnishing tax forms and publications. This assistance is available at over 700 permanent and temporary offices, including sites in inner cities, and suburban and rural areas. Many of these locations offer assistance in Spanish and other languages, and provide special assistance for the deaf or hearing-impaired.

Taxpayer Information and Education - A year-round public information campaign is conducted by the IRS, with special emphasis on filing period information needed by taxpayers to complete their own returns. Taxpayer information materials in both English and Spanish are developed for use by national and local television, radio and print media outlets, as well as to address the tax needs of specialized audiences. Among taxpayer education programs conducted by IRS, two make use of IRS-trained community volunteers

PROGRAM SUMMARY STATEMENT

-2-

Bureau: Internal Revenue Service

Program Unit Number: 09-09

Program Name: Taxpayer Service

Appropriation Code: 20-0912-0-1-803

to offer free tax return preparation assistance to low income, elderly, and non-English speaking taxpayers who have difficulty in seeking the assistance of paid preparers or the IRS. These programs are Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE), the latter program created by the Revenue Act of 1978. In FY 1980, volunteers in these two programs prepared over 355,000 returns. In recent years, Congress has authorized funds beyond those requested for the administration of these programs. Other taxpayer education programs are directed toward new small businesspersons, secondary school students, tax practitioners, and taxpayers participating in IRS examination or appeals proceedings. In cooperation with other government agencies, the IRS also provides special tax information to victims of major disasters and emergencies. Most recently, these efforts included special assistance to the families of the returning Americans from Iran.

C. Major Goals of a balanced Taxpayer Service program are to continue to: Improve the quality of assistance provided by Taxpayer Service personnel; provide prompt and accurate toll-free telephone service to taxpayers who call our offices; provide prompt and accurate assistance to all taxpayers who visit our offices; enhance the utilization of resources; maintain taxpayer information and education programs geared for the general public; provide specialized tax information and assistance to groups of taxpayers with particular needs, such as the elderly, the handicapped, the non-English speaking, and the indigent; provide specialized assistance to tax practitioners, small businesspersons and others with special needs; and upgrade telephone-answering equipment with the advanced diagnostic and management information capability required to manage the toll-free telephone system most effectively.

D. Policy Issues Addressed - The major issue in development of the 1983 budget request is what is the optimal mix of program delivery at each funding level? Sub-issues considered were: the trade-offs between maximizing numbers of taxpayers to be assisted versus the needs of individual groups of taxpayers; the turbulence created in discontinuing types and locations of assistance offerred; the taxpayer's perception of fairness; feasibility of increasing dependency on volunteer groups; the availability of volunteer groups to support the need and the impact on compliance and accuracy of returns.

E. Recommendations - At the 15% reduction level, we recommend that all walk-in assistance be eliminated This would entail discontinuance of all return preparation (direct preparation and self-help), review of returns and other walk-in assistance (e.g., quick questions), and the closing of low volume posts-of-duty. An alternative considered was to prorate the reduction against all major activities. This alternative was not adopted as it would have resulted in closing some headquarters offices, and severely reducing others, resulting in an inconsistent availability of service. By eliminating the entire walk-in operation, additional staffing would be available to increase the telephone activity and efforts in the volunteer and tax information areas to meet minimum return preparation assistance and information needs.

PROGRAM SUMMARY STATEMENT

Bureau: Internal Revenue Service
Program Unit Number: 09-09
Program Name: Taxpayer Service
Appropriation Code: 20-0912-0-1-803

At the 7% level, we propose to eliminate the total Return Preparation/Self-Help Activity (except for physically handicapped) and to close low volume posts-of-duty; 90% of other walk-in assistance will be restored; staff savings above the reduction would be smaller, but would be devoted to enhancing volunteer, tax information and toll-free activities. Fewer telephone calls would be answered than at the prior level, but a more balanced program would be achieved since a limited amount of walk-in assistance would be available for those individuals requiring face-to-face assistance. An alternative considered was to restore only 75% of other walk-in assistance with increased waiting times, devoting the additional resources saved to the telephone activity. While this would have allowed an additional 1.9 million calls to be answered, this alternative was not selected since geographical consistency of service would not be maintained and some headquarters office walk-in services would have to be severely curtailed.

At the 5% level, the self-help program for 1040A would be restored, with slight staff savings above the reduction level devoted to enhancing volunteer and toll-free activities. Slightly fewer telephone calls would be answered than at the prior level, again in the interest of providing a more comprehensive and balanced program.

At the 2% level, self-help activity for 1040's would be restored. A small but still significant staff savings would be applied to telephone and volunteer activities. The alternative of not restoring the self-help activity for 1040's was considered, diverting the resources saved to answering an estimated 1.6 million additional telephone calls. This alternative was not adopted primarily to insure that the special needs of elderly taxpayers, who make frequent use of 1040 self-help assistance, can continue to be met.

At the current level, we propose to continue to effect savings in the Direct Preparation/Review and other activities in order to enhance telephone capability. At this level, the final 10% of other walk-in assistance would be restored. The alternative of devoting these resources instead to the telephone activity, allowing response to an additional 0.8 million calls, was also considered. This alternative was not selected since it would have, in effect, represented additional reductions to a needed service which was already significantly reduced in FY 1982.

The enhancement levels, split into several increments, would restore all services existing in FY 1982, plus allow for growth in toll-free telephone service based on our average growth experienced. It is important to note that all reduced levels contemplate denial of services/offices which may be viewed as discriminating against a specific type of taxpayer. It is likely that each reduced level alternative would meet with some adverse public reaction and would degrade taxpayer willingness or ability to comply with tax obligations. In fact, at all levels below D3 (Current Workload), the level of telephone service offered in proportion to the number of taxpayer seeking assistance will be below that planned for FY 1982.

F. Multi-Year Outlook - Growth in demand for telephone service is expected to continue. Increases in staffing levels are essential to further voluntary compliance by making available information necessary to enable taxpayers to meet their tax responsibilities.

SUMMARY OF FUNDING AND PLANNING LEVELS
Program Summary

Bureau: Internal Revenue Service

Program Name: Taxpayer Service

Program Unit Number: 09-09

Appropriation Code: 20-0912-0-1-803

	FY 1981		FY 1982		A FY 1983 (-15%)		B1 FY 1983 (-7%)		B2 FY 1983 (-5%)		B3 FY 1983 (-2%)		C FY 1983 (Current Level)		D1 FY 1983 (Current Wrkld)	
Sub-Programs	Ave. Pos.	Amount ($000)	Ave. Pos.	Amount ($000)	Ave. Pos.	Amount ($000)	Ave. Pos.	Amount ($000)	Ave. Pos.	Amount ($000)	Ave. Pos.	Amount ($000)	Ave. Pos.	Amount ($000)	Ave. Pos.	Amount ($000)
Office/Correspondence	1235		1042		197		657		805		912		963		963	
Taxpayer Telephone Assistance	2826		2984		3161		3057		3002		3023		3058		3153	
Taxpayer Education	129		106		122		113		108		110		110		110	
Taxpayer Info/Public Affairs	97		97		101		99		98		98		98		98	
Tax Administration Advisory Services (TAAS)	14		14		14		14		14		14		14		14	
Tax Forms Distribution	79		1/		-		-		-		-		-		-	
Related Admin. Support	189		192		163		179		183		189		192		196	
Related Centralized Services	19		18		18		18		18		18		18		18	
ADP-Related Equipment Enhancement of ACD's		17		40		40		40		40		40		282		282 1250
Equip. for Visual. Handicap. Taxpayer Materials																187
PROGRAM TOTAL (BA)	4,588	133,301	4,453	136,899	3,776	131,716	4,137	138,691	4,228	140,447	4,364	143,078	4,453	145,170	4,552	149,038
TOTAL OUTLAYS		131,968		135,377		131,189		138,136		139,885		142,506		144,589		148,442

CRITICAL MEASURES Sub-Programs	FY 1981	FY 1982	FY 1983 (-15%)	FY 1983 (-7%)	FY 1983 (-5%)	FY 1983 (-2%)	FY 1983 (Current Level)	D1 FY 1983 (Current Wrkld)
Office and Correspondence Contacts (000's)	7,966	6,266	100	3,458	4,538	5,319	5,691	5,691
Telephone Calls Answered (000's)	30,260	31,960	34,592	33,045	32,227	32,539	33,060	34,473
TPE Participants (000's)	254	207	215	210	208	209	209	209
Publications Distributed (000's)	5,450	5,200	5,200	5,200	5,200	5,200	5,200	5,200
TAAS Advisory and IPA Assignments Coordinated	24	31	25	25	25	25	25	25
TAAS International Visitors Accommodated/Progs. Devel.	400/100	400/100	400/100	400/100	400/100	400/100	400/100	400/100

Form M-6909 (4-81)

Department of the Treasury - Internal Revenue Service

1/ For FY 1982 and following fiscal years, these staff years are shown in the Tax Forms Distribution program.

SUMMARY OF FUNDING AND PLANNING LEVELS
Program Summary
Continuation Sheet

BUREAU: Internal Revenue Service

PROGRAM NAME: Taxpayer Service

Program Unit Number: 09-09

Appropriation Code: 20-0912-0-1-803

Sub-Programs	D2 FY 1983 (Enhancement)		FY 1983 (Enhancement)		FY 1983 (Enhancement)		FY 1983 (Enhancement)		FY 1983 (Enhancement)		FY 1983 (Enhancement)		FY 1983 (Enhancement)		FY 1983 (Enhancement)	
	Ave. Pos.	Amount ($000)	Ave. Pos.	Amount ($000)	Ave. Pos.	Amount ($000)	Ave. Pos.	Amount ($000)	Ave. Pos.	Amount ($000)	Ave. Pos.	Amount ($000)	Ave. Pos.	Amount ($000)	Ave. Pos.	Amount ($000)
Office/Correspondence	963															
Taxpayer Telephone Assistance	3253															
Taxpayer Education	110															
Taxpayer Info/Public Affairs	98															
Tax Administration Advisory Services (TAAS)	14															
Tax Forms Distribution	-															
Related Admin. Support	201															
Related Centralized Svc.	18															
ADP-Related Equipment		282														
Enhancement of ACD's		1,250														
Equip.for Visual. Handicapped		1,600														
Taxpayer Materials		530														
PROGRAM TOTAL (BA)	4,657	151,748														
TOTAL OUTLAYS		151,141														

CRITICAL MEASURES Sub-Programs	D2 FY 1983	FY 1983	FY 1983	FY 1983	FY 1983	FY 1983	FY 1983	FY 1983
Office and Correspondence Contacts (000's)	5,691							
Telephone Calls Answered (000's)	35,960							
TPE Participants (000's)	209							
Publications Distributed (000's)	5,200							
TAAS Advisory and IPA Assignments Coordinated	25							
TAAS International Visitors Accommodated/Progs. Developed	400/100							

Form M-6910 (4-81)

Department of the Treasury - Internal Revenue Service

TAXPAYER SERVICE

Issue

What is an acceptable level of service to the taxpaying public and what alternative methods can be identified for providing this service?

Response

Background

1. Growth in Staff Years and Workload

As a basis for examining the issue of an acceptable level of taxpayer service and the alternate means available to deliver that service, it is necessary to address growth in Taxpayer Service staff and quantifiable program outputs over the past seven years.

A stated assumption of the issue in question is that "Taxpayer Service staff has almost doubled over the seven year period FY 1974- FY 1980 (from 2,800 to 5,200 staff years), with quantifiable outputs growing only 14 percent." However, due to organizational and reporting changes over that time period, the figures used as a basis for the assumption are not directly comparable. To permit such a comparison, it should first be noted that detail-in staff years contributed by Examination and Collection, which are included in the FY 1980 Taxpayer Service budgeted staff years, were not included in FY 1974. Adding these staff years (721) brings the FY 1974 total (2,798) to 3,519 staff years. Similarly, the FY 1980 budgeted staff years (5591) for Taxpayer Service must be reduced by the number of staff years which have been added because of reorganization or program transfer (and which do not contribute to conventional workload measures). This results in a reduction of some 965 staff years, for a total of 4626 staff years.

During this same period, Taxpayer Service Division modified and refined its reporting system. In FY 1974, a manual reporting system was used which relied on "tic marks" and estimates made by assistors of their daily workload. It was our experience that this system frequently resulted in inflated counts, particularly in smaller posts-of-duty. This process has now been replaced by a computerized, highly sophisticated reporting system which relies for input on individual assistance cards completed for each taxpayer helped in the walk-in area and on automatic register counts of toll-free calls. In addition, selected activities previously reported as walk-in contacts, such as Your Business Tax Kits (YBTKs) and forms-only requests, were included as walk-in workload measures in FY 1974 but not in FY 1980. We estimate there were at least two million such contacts in FY 1974. In addition, Taxpayer Service unit counts in FY 1974 included some half-million walk-in and telephone contacts handled by Service Centers. Assistance of this type is no longer offered in Service Centers.

Based on those adjustments which make FY 1974 roughly comparable to FY 1980, the growth in Taxpayer Service staff years is 1,107, or about a 31% increase. During the same period, measured workload increased from 31.9 million contacts to 43.0 million, or an increase of approximately 35%. These adjustments are summarized in the table below.

	1974	1980
T.S. Budgeted SYs	2,798	5,591
(SY Adjustments)		
Details-In, Collection/Examination	721	--
Problem Resolution Cadre	--	(134)
Details-Out to Problem Resolution	--	(95)
Public Affairs	--	(87)
VITA/TCE	--	(62)
Other Taxpayer Education	--	(39)
Quality Review	--	(50)
Disclosure	--	(224)
TAAS	--	(14)
Tax Forms	--	(260)
Net TS SYs	3,519	4,626
Percent Change 1974-1980:	31%	
Workload (Telephone; Walk-In; Correspondence) Units: (millions)	34.4	43.0
(Adjustments)		
Service Center TS	(.5)	--
Forms, YBTK Distribution	(2.0)	--
Net Workload	31.9	43.0
Percent Change 1974-1980:	35%	

It must also be noted that even these figures fail to take into account certain organizational changes whose impact cannot be precisely measured but which impact on a staff year/output comparison. In 1975, when Taxpayer Service was separated from Collection Division and became a Division in its own right, an independent management structure was established, with some increase in overall management time. These changes also included the conversion of temporary Taxpayer Service assistors and detail-in hours from Examination and Collection to a mix of permanent Taxpayer Service employees and seasonal WAEs, resulting in establishment of a large cadre of seasonal employees, as well as the creation of the Taxpayer Service Specialist (TSS) position. These changes heavily and simultaneously impacted on training needs, learning curves and productivity potential.

At the same time, the IRS has made continuing efforts to insure that the most productive and cost effective methods of providing service were being used. In recent years, we have given priority to the Toll-Free Telephone program because this has proven to be the most efficient means of servicing taxpayers. We have diverted resources to this activity from other areas as well as improved the productivity of individual assistors. In FY 1977, for example, front-line assistors answered 13.6 calls per hour, whereas in FY 1980, that rate was 18.2 per hour.

Similar efforts have been made in the area of returns preparation, most notably in the shift which has taken place in recent years from direct preparation of returns to the "self-help" method. In FY 1977, only 34% of returns were prepared by the self-help method, while over 88% were prepared by that method in FY 1980. This concern for increased efficiency continues to show positive results. In FY 1977, overall productivity achieved in the telephone, walk-in and correspondence areas was 4.2 units per staff hour. While in FY 1980 this rate had only increased to 4.4 units per staff hour, in FY 1981 (through 4/18/81), that same productivity rate had reached 5.3 units per hour.

It must also be noted that a variety of distinct outputs are associated with the programs and staff years listed in the preceding chart but are not captured in conventional workload measurements. For example, in FY 1980 there were approximately 5.5 million participants in the IRS taxpayer education programs, as well as some 355,000 individual income tax returns prepared through the volunteer assistance programs. In the Quality Review program, some 362,000 taxpayer contacts (tax returns, telephone inquiries) and referrals were reviewed in FY 1980. That same year, Public Affairs Officers and staff distributed taxpayer information items to over 23,000 print media outlets, and television taxpayer information public service announcements were used by stations over 3,600 times.

Thus, by making identifiable adjustments to the FY 1974 and FY 1980 staff year and output base figures, the disparity in growth reflected in the assumption can be corrected.

2 Impact on Accuracy and Compliance

The primary objective of the Taxpayer Service program is to promote voluntary compliance on the part of taxpayers. Voluntary compliance entails both the willingness and the ability on the part of taxpayers to fulfill their tax obligations. The Taxpayer Service program addresses the needs of the great many taxpayers who attempt to fully meet their tax responsibilities but who require assistance or additional information to do so. In addressing these needs, the Taxpayer Service program improves the accuracy of returns filed and enhances overall compliance.

An exhaustive study, begun in July 1975, of the Taxpayer Service returns preparation and review program specifically considered the impact of that program on the accuracy of returns filed. Study results were transmitted to Treasury in November 1976 and December 1977. These results disclosed that return preparation and review assistance, provided for and used by taxpayers who need assistance the most, resulted in:

1. fewer math errors on returns;

2. fewer unallowable items on returns;

3. fewer defects requiring service center resolution; and

4. returns less likely to be selected for audit, and less likely to change as a result of an audit.

The report concluded that the IRS preparation of returns does not pay for itself in terms of reduced processing and examination activity. However, the report did not take into account revenues that would have been lost to the government by taxpayers failing to file had assistance not been available.

The Taxpayer Service Quality Review System, which measures accuracy of responses, reflected an overall accuracy rate of over 97% for Fiscal Year 1980 telephone assistance. Also, a report summarizing the frequency of mathematical errors on all returns shows that IRS assisted returns have a lesser incidence of mathematical error than those prepared with any other form of assistance (commercial or volunteer-prepared), or those returns prepared by taxpayers without assistance.

Because Taxpayer Service activities are "preventive" in nature, it is equally difficult to quantify their direct contribution to compliance enhancement. However, Taxpayer Service personnel perform many duties which are directly compliance-related. Among these are:

-- resolving non-receipt of W-2 inquiries;

-- securing delinquent returns;

-- explaining balance due and other notices;

-- ordering FTD cards;

-- preparing alien clearances; and

-- conducting workshops for new small businesspersons.

Particularly in the case of the returns preparation activity, the previously cited study established that a large percentage of taxpayers seeking IRS assistance are elderly, possess a relatively low functional competency and would not or could not comply with the law without IRS assistance.

Recognizing the need for a Taxpayer Service program that furthers voluntary compliance by meeting the needs of taxpayers willing but unable to comply with the tax laws, the proper level of this service must be identified. Certainly, no taxpayer, when faced with a complex responsibility imposed by the government which is time-consuming and carries with it severe penalties for failure to comply, should be left without practical alternatives for getting the information or assistance needed to meet his or her responsibilities. It is the goal of IRS to maintain a level of Taxpayer Service which maximizes accessibility by taxpayers needing assistance while at the same time addressing the needs of special groups such as the elderly, low-income, physically handicapped or those incapable of preparing their own returns. Summarized in the section that follows are alternative methods for providing this service, as well as advantages and disadvantages of each.

Alternatives

1 Balanced Program

This alternative provides the widest range of services among all alternatives. Program activities include: Toll-Free Telephone Assistance, Returns Preparation Assistance, principally through the self-help method, and Taxpayer Information and Education programs. Direct preparation will be available only to those who are unable to utilize self-help (e.g., handicapped). Taxpayers requiring answers to specific questions or requesting forms will be encouraged to use the telephone. However, walk-in assistance will be available for those who wish to wait a reasonable period of time. Volunteer programs will be emphasized to help accommodate normal growth. Taxpayer information materials will be provided to the general, specialized, and electronic media.

The advantages of this alternative are: taxpayers will have available all types of assistance needed to comply with their tax obligations; benefits in terms of increased accuracy and enhanced compliance would be maximized, little adverse reaction from the public would be expected as this alternative most nearly represents current services offered.

The major disadvantage of this alternative is that some taxpayers seeking direct preparation or other walk-in assistance may be inconvenienced to the point that they file a return without the assistance needed.

Walk-In/Correspondence: 5.7 million

Telephone Calls Answered: 37.4 million

Funding level: 4,538 average positions (FY 1983)

2 Reduced Walk-In Program

This alternative would eliminate all forms of returns preparation assistance except 1040-A self-help; physically handicapped persons would receive whatever assistance is required. Reduced staffing would be available to respond to specific questions or to provide special assistance not possible over the telephone, e.g., notices which require face-to-face assistance, alien clearances. Some portion of the "saved" resources would be applied to increasing volunteer programs, in terms of numbers of volunteers and quality. The major portion of saved resources would be diverted to telephone assistance. Taxpayer Information programs would emphasize volunteer services and site locations.

The advantage of this alternative is that the absolute number of contacts is maximized while still maintaining a walk-in operation and an appearance of a balanced program.

The disadvantages of this alternative are: nearly a million taxpayers who received assistance in the preparation of Form 1040 in prior years will no longer receive similar assistance; significant negative public reaction can be anticipated especially on the part of elderly taxpayers who make frequent use of this service; Congressional criticism can be expected; volunteer programs will not be able to adequately replace the eliminated IRS returns preparation assistance; the crossover to telephone requests for assistance may exceed capacity at some sites; and the frequency of errors on returns and failure to file will likely increase.

Walk-In/Correspondence: 4.5 million

Telephone Calls Answered: 32.2 million

Funding level: 4,027 average positions (FY 1983)

3 Severely Reduced Walk-In Program

Under this alternative, only quick question assistance will be available in our offices. No returns preparation assistance will be available to any taxpayer (except physically handicapped). Low volume offices would be reexamined to see if the walk-in traffic could be diverted to another location or to the telephone. Most of the additional resources available from closing offices/reducing staffing would be used in the telephone area and volunteer programs would receive more emphasis, accompanied by publicity to identify the location of and services available at these sites.

The advantage of this alternative is that some assistance which cannot be obtained over the telephone (e.g. notices which require face-to-face assistance; alien clearances) is still available.

The disadvantages are: over 2.5 million taxpayers who received returns preparation assistance in the prior year will be denied that type of assistance; the number of sites where walk-in service is available will be reduced and waiting times will be longer; criticism from the public and their Congressional representatives will be more severe; the frequency of errors will likely increase; and taxpayer ability and desire to comply will be diminished.

Walk-In/Correspondence: 3.5 million

Telephone Calls Answered: 33.0 million

Funding level: 3,940 average positions (FY 1983)

4 Eliminated Walk-In Program

This alternative would close the walk-in assistance operation in each of our 58 district offices and, in over 700 other offices, associated Taxpayer Service personnel will be removed. Self-help forms racks will constitute the only form of walk-in "assistance" to be maintained. Saved resources will be diverted primarily to the telephone activity. Volunteer programs will be enhanced to the maximum extent practical, and information programs will be designed to encourage taxpayers to utilize volunteer sites.

The advantage of this alternative is that an absolute maximum number of taxpayers can be assisted with available staff years. In addition, costs for space and property to support the walk-in activity can be avoided.

The disadvantages are: the IRS strategy of balancing enforcement and assistance will be discredited; taxpayers with problems which do not lend themselves to telephone contact would have limited or no alternatives; severe negative public and Congressional reaction can be expected; the segments of society most in need of assistance (i.e., elderly, low-income, handicapped, and those incapable of preparing their own returns) would have no alternative source for help other than volunteer sites; significant impact to these groups of taxpayers, in particular, can be expected in terms of frequency of errors and willingness and desire to comply, with consequent loss of revenue to the Treasury.

Walk-In/Correspondence: .1 million (corr. only)

Telephone Calls Answered: 34.6 million

Funding level: 3,595 average positions (FY 1983)

Note: At no time has the alternative of significantly reducing or eliminating the toll-free telephone program been considered. To do so would severely impact on the greatest number of taxpayers and on the type of assistance which is most convenient and cost effective. Nevertheless, all the alternatives described above result in a level of telephone service offered, in proportion to the number of taxpayers seeking assistance, which is below that achieved in FY 1980.

Recommendation:

The Balanced Program described as Alternative 1 is recommended as being most supportive of the IRS objective of increased voluntary compliance and most responsive to the existing variety of taxpayer needs.

While reduced levels of walk-in assistance, as described in Alternatives 2-4, would result in larger absolute numbers of taxpayers being assisted at those particular funding levels, the scope of this assistance would be limited, obtaining certain types of assistance would be made more inconvenient, and the elderly, low income, handicapped and those incapable of preparing their own returns, who constitute that segment of society most in need of assistance, would be most severely affected.

Budget Estimates

Fiscal Year 1983
Office of Management and Budget Submission

Caution
The information contained herein is of a confidential nature and for the use of Internal Revenue Service and other Federal Employees of the Executive Branch in the conduct of official Government business. The restriction will no longer exist after the President delivers the annual message to the Congress for the pertinent budget year.

Department of the Treasury
Internal Revenue Service

INTERNAL REVENUE SERVICE
FISCAL YEAR 1983 BUDGET PROPOSAL
PROGRAM SUMMARY STATEMENT

The IRS Mission and Underlying Assumptions

The mission of the Service is to encourage and achieve the highest possible degree of voluntary compliance with the tax laws and regulations. The underlying premise of this mission is that accurate self-assessment of tax due by taxpayers and a corresponding timely payment of that tax constitutes the most cost effective and least burdensome method of tax administration. This assumption can be supported by a comparison of the administrative costs of the Internal Revenue Service with the tax administration agencies of other industrialized nations, which would show U.S. tax administration to be much less expensive per dollar collected.

The Service's approach to encouraging the level of voluntary compliance necessary to maintain our self-assessment system rests on certain basic assumptions:

- The willingness of taxpayers to file tax returns, correctly assess their liability and make timely payment is heavily influenced by their perception that these actions will be required if not done voluntarily. Taxpayer compliance with the law is assumed to be dependent to a significant degree on public confidence that the IRS is able to identify noncompliance and will take remedial action.

- The civil compliance and enforcement procedures of the Service are enhanced if they are backed up by the judicious, publicized use of criminal sanctions to address cases of flagrant tax evasion.

- Taxpayer compliance can be undermined if the public does not also have confidence in the integrity and evenhandedness of the Service. Consequently, IRS employees have a responsibility to administer the tax laws uniformly, efficiently, fairly, courteously, and with scrupulous regard for the privacy of tax information. Constant reinforcement of integrity awareness among all employees is essential.

- The Service has historically maintained that a substantial segment of the taxpaying population requires information or assistance in order to meet their tax filing obligations. The tax laws are complex; where the need for assistance is not already met through the private sector, the government has a basic obligation to respond to taxpayers who seek assistance or have problems or questions concerning their account. Also, timely assistance helps reduce errors or non-compliance which require subsequent correction or enforcement action. The Service and the office of the Secretary are currently reappraising the appropriate level of taxpayer service that should be provided by the government. As a result, 1983 estimates for the Taxpayer Service and Problem Resolution programs are not included in this submission. These estimates will be submitted later as an amendment to this request.

Current Situation and Policy Issue

The Internal Revenue Service has a unique mission among federal agencies. It is responsible for the income side of the federal budget, accounting for about 90 percent of all federal receipts. All government operations depend on IRS's capability to administer the tax laws fully and effectively and to assure that the revenues that are legislated are received.

Always important, effective tax administration is even more crucial now in view of the overriding need to reduce federal borrowing and to put the government on a pay as you go basis. We believe that a more modern, more effective tax administration system is essential in the coming years if the government is to meet its various responsibilities while living within its means. We see this as a significant issue and a key element in the Administration's fiscal policy.

The tax administration system today is in many ways seriously inadequate to its task and faces major tax compliance problems. The consequence of not dealing with this situation in a planned and consistent way will not be limited to just one program in government, IRS. It will influence the ability of the government, generally, to meet its objectives within a balanced budget.

- All of the evidence available shows deterioration in the percentage of tax liability voluntarily reported, both among individuals and corporations.
- Studies estimate that the underground economy approaches $100 billion in undocumented, untaxed income from legal sources alone.
- Abusive tax shelter schemes have reached epidemic proportions. This is occurring more and more among middle income classes where contemplated marginal rate reductions would have decreasing effect.
- The frequency and extent of illegal tax protest schemes, such as false withholding statements, have increased.
- The government is sustaining a large and growing annual revenue loss ($20 billion on 1980 individual returns)... a windfall tax cut to those avoiding their obligation and a substantial additional federal borrowing burden that is being carried by the honest taxpayer.
- Important measures of IRS's capacity to keep pace with a growing and more complex workload are a cause of serious concern:
    - Frequent major tax legislation, from the Tax Reform Act of 1976 to the Windfall Profit Tax of 1980, have absorbed most IRS staffing increases over the past several years.

- Complex returns filed (with income over $50,000) will be up from 1.6 million in 1980 to 5.1 million in 1983, a 200 percent increase.

- The number of corporation returns will grow from 1.970 million to 2.223 million (12.8 percent) between 1980 and 1983.

- Percent of returns examined has declined by 35 percent since 1977 to an all time low of 1.59 percent in 1982.

- The inventory of unpaid tax accounts will have increased from 844 thousand ($2 billion) in 1977 to 2.1 million ($6.5 billion) in 1982.

- The unworked inventory of delinquent return investigations will grow from 210,000 to 428,000 (100 percent) over the same 1977-82 period.

- The amount of disputed tax assessments awaiting appeals settlement will have doubled between 1977 and 1982, from $7 billion to $14 billion.

- Litigation case inventory is growing at an average rate of over 25 percent a year.

- The Service's ADP systems, now up to 17 years old, are wearing out and are grossly short of the capacity and modern state-of-the-art efficiency that is essential for an effective tax system in the 1980's. The Service is slipping far behind in realizing the potential for automated techniques to make strides in productivity and to enhance tax compliance operations.

The strategy and related investments to turn this situation around and put the country's tax system back on a strengthened rather than weakening course is the central policy consideration for the Service.

Strategies and Objectives

The Service's strategy for promoting high tax compliance and assuring the flow of legislated revenues to the Treasury has three major components. The first component consists of efforts to facilitate compliance with the law, making it as simple as possible for taxpayers to meet their tax obligations. Such facilitative efforts include: issuing general information documents, regulations and rulings, mailing out forms, schedules, and instructions; assuring taxpayers access to IRS regarding tax account status; processing returns and issuing refunds promptly; and, providing an administrative appeals system to settle tax cases without unreasonable delay.

The second component addresses situations where taxpayers have made errors. As a part of the Service's returns processing system, checks are made to detect claims for unallowable items, correct mathematical errors, send notices to those who have not filed or failed to make full payment of liability, and bring unreported income to the attention of the taxpayer. These programs, largely computer based, can be categorized as error correction programs.

The third strategic component involves identification, correction, and deterrence of non-compliance through enforcement action; the Examination, Collection and Criminal Investigation Programs fall within this category. The Examination program provides a broad compliance presence designed to assure that taxpayers are reporting all taxable income and correctly stating exemptions, deductions, and credits. The Criminal Investigation Division takes selected leads from the Examination and Collection programs for development of criminal cases, thereby strengthening the deterrent effect of examinations. The Collection program assures that taxes assessed are paid and that required returns are filed. As a final step in enforcement, issues unable to be resolved administratively are litigated in Tax Court by Legal Services attorneys or forwarded to Department of Justice or U.S. Attorneys for adjudication in another court.

Each of these three stategic components of tax administration is essential. Any realistic budget proposal must maintain reasonable balance among them. A tax system based on self assessment could not long withstand failure to provide the taxpayer with the necessary materials and information to file. The withholding system depends, in large part, on the Service's ability to maintain accurate accounts and issue refunds promptly. The government cannot reasonably impose a complicated tax law without providing the necessary tax forms and information materials to taxpayers. The correction of inadvertent error is key to the public's confidence in the efficiency and competence of the tax system. Finally, failure to deal with non-compliance, both civil and criminal, would soon lead to wholesale erosion of voluntary compliance.

For these reasons the Internal Revenue Service's budget estimates attempt to maintain this essential balance at all levels.

Accomplishments for FY 1982

Under the FY 1982 revised budget proposals submitted to Congress in September, all IRS programs will be reduced from prior year levels. This budget will provide for the continued implementation of Phase I of the Equipment Replacement Program and processing of the expected 142 million tax returns. However, the level of support the IRS service centers can provide to compliance and enforcement programs will decrease. Certain programs, such as matching employee W-2's with related employer W-3's and correcting erroneous taxpayer identification numbers for information returns matching must be reduced or eliminated. Taxpayer Service will answer about 33 million calls, up almost 3 million from FY 1981, while walk-in taxpayer assistance will drop by over 50 percent.

Resources for the Delinquent Returns Program have been increased in 1982 for the stepped up effort to identify and correct false or invalid Form W-4 withholding statements. Assessments from the Delinquent Returns Program will total about $1.9 billion, up $284 million from FY 1981. The W-4 investigations account for all of this increase. Revenues collected by the Accounts Receivable Program will increase $207 million from FY 1981, for a total in FY 1982 of $6 billion; however, because of increasing delinquencies, the inventory of uncollected accounts will exceed 2 million representing $6.5 billion. Unpaid accounts will rise by almost 477,000 and $1.438 billion.

Examinations will drop by 270,000 from FY 1981; however, single issue contacts will increase by 236,000. Assessments will increase by about 3 percent or $181 million, but the percentage of returns examined will continue to drop -- from 1.88 to 1.59 percent. Cases in the litigation inventories will continue to rise by almost 40 percent (from 74,336 in FY 1981 to 102,454 in FY 1982).

In making the necessary reductions to implement the September budget revision, the Service's goal was to minimize the impact on revenue collections. To the extent that these reductions affect programs directly related to our tax enforcement and returns processing programs, we have instituted a user funding charge system to continue these necessary services.

These program levels presume supplemental funding for $85 million in unavoidable cost increases ($14 telecommunications, $20 postage, and $51 unemployment compensation expenses). These levels further presume supplemental funding for the full costs ($91 million) of the October, 1981 employee pay increases. To the extent that these resources were not provided, projected program accomplishments and revenue would be reduced very significantly.

FY 1983 Proposed Budget

An important element of the Service's budget proposal for FY 1983 is the provision of some $97 million to meet unavoidable cost increases. These funds are prerequisite to maintaining 1982 staffing costs (as revised in September) in 1983.

A major objective for FY 1983 is to push ahead with badly needed ADP modernization. Included in the Service's proposed ADP investments are funds necessary to keep the Equipment Replacement Program (ERP) on schedule. This long-delayed initiative to get the basic tax account system onto modern, reliable and efficient computers that have adequate capacity must go forward if we are to have a workable automated tax system at all in the near future. Other major initiatives include:

- replacing the direct data entry system to improve reliability and efficiency of transcription of tax return data;

- implementing an automated collection system linking automated case control to an intensive telephone call program to speed up collection of past due accounts;

- implementing optical character recognition (OCR) for FTD processing in ten Service Centers;
- testing an automated examination system which provides examiners with terminal access to taxpayer return data for examination purposes, schedules workload for the Examination function, and generates reports, letters, and management information reports;
- introducing micro-computers into field offices for rapid computational support for technical personnel and to modernize the Service's management information system; and
- installing ZIP code presorting equipment for which anticipated postage savings have already been discounted from our budget.

Significant additional revenue, representing tax that is going unreported and unpaid, can be brought into the Treasury. The Service proposes an initiative to improve revenue collections. We are confident that with this initiative we can reduce the gap between Federal receipts and outlays by a total of more than $5 billion net through FY 1984. This can be done by expanding temporarily the IRS capacity to work down substantial backlogs of uncollected tax, to follow-up on evidence of unfiled tax returns, to audit more returns where potential tax yield is highest, and to expedite resolution of tax cases under appeal, speeding revenue flow to the Treasury. A summary of these initiatives follows:

Revenue Initiative Proposal
($ in millions)

	Average Positions	Gross Yield	Cost	Net Yield
FY 1982	1,030	$ 596	$129	$ 467
FY 1983	5,415	$2,336	$234	$2,102
FY 1984	5,630	$3,112	$308	$2,804

Total Gross Yield (1982 - 1984)	$6,044
Total Cost	671
Total Net Yield	$5,373

The net yields above, projected as over $5 billion for this period, are contingent upon receiving timely supplemental funding in FY 1982. This will allow for substantial recruitment and technical training in fiscal year 1982 so that these new employees will be fully productive by early fiscal year 1983.

PROGRAM SUMMARY STATEMENT

Bureau: Internal Revenue Service

Program Name: TAXPAYER SERVICE

Program Unit Number: 09-09

Appropriation Code: 20-0912-0-1-803

GOALS AND OBJECTIVES:

A. Mission Statement - The Taxpayer Service Program enables taxpayers to voluntarily comply with tax laws and regulations through a year-round program of providing accurate information and assistance. Taxpayer Service also provides technical assistance in tax administration to foreign, state and local governments in accordance with the provisons of the Foreign Assistance and Intergovernmental Personnel Acts.

B. Program Description - The Taxpayer Service Program provides year-round tax information and assistance in 59 district offices and in various foreign countries through the Office of International Operations. The program is designed to balance the needs of all segments of the public, attempting to maximize the number of taxpayers assisted and at the same time meet the needs of special groups such as the elderly, low-income, and physically handicapped. Assistance ranges from explaining complex technical provisions of the tax code and answering questions concerning tax account status to questions on how and where to file returns, and furnishing forms requested by taxpayers. In addition, Taxpayer Service devotes over 50% of the time required to resolve problems surfaced through the Problem Resolution Program. Taxpayer assistance is provided by three principal methods: telephone assistance, primarily through a toll-free network: assistance to taxpayers who write or walk into Internal Revenue Service offices and taxpayer information and education programs, including efforts targeted for special groups.

Telephone Assistance - The toll-free telephone system, centralized in 55 answering locations, provides tax assistance without the cost of a long distance call. This service covers all of the United States, Puerto Rico and the Virgin Islands. Deaf and hearing-impaired taxpayers are provided the same assistance through the television/telephone/teletypewriter toll-free system. Approximately 80% of the Taxpayer Service workload is handled through telephone assistance.

Walk-In Assistance/Correspondence - Includes answering taxpayer questions during an office contact, responding to written inquiries and furnishing tax forms and publications. This assistance is available at over 700 permanent and temporary offices, including sites in inner cities, and surburban and rural areas. Many of these locations offer assistance in Spanish and other languages, and provide special assistance for the deaf or hearing-impaired.

Taxpayer Information and Education - A year-round public information campaign is conducted by the IRS, with special emphasis on filing period information needed by taxpayers to complete their own returns. Taxpayer information materials in both English and Spanish are developed for use by national and local television, radio and print media outlets, as well as to address the tax needs of specialized audiences. Among taxpayer education programs conducted by IRS, two make use of IRS-trained community volunteers to offer free tax return preparation assistance to low income, elderly, and non-English speaking taxpayers who have difficulty in seeking the assistance of paid preparers or the IRS. These programs are Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE), the latter program created by the Revenue Act of 1978. Other taxpayer education programs are directed toward new small businesspersons, secondary school students, tax practitioners, and taxpayers participating in IRS examination or appeals proceedings. In cooperation with other government agencies, the IRS also provides special tax information to victims of major disasters and emergencies. Most recently, these efforts included special assistance to the families of the returning Americans from Iran.

C. Major Goals of a balanced Taxpayer Service program are to continue to: improve the quality of assistance provided by Taxpayer Service personnel; provide prompt and accurate toll-free telephone service to taxpayers who call our offices; provide prompt and accurate assistance to all taxpayers who visit our offices; enhance the utilization of resources; maintain taxpayer information and education programs geared for the general public; provide specialized tax information and assistance to groups of taxpayers with particular needs, such as the elderly, the handicapped, the non-English speaking, and the indigent; provide specialized assistance to tax practitioners, small businesspersons and others with special needs; and upgrade telephone-answering equipment with the advanced diagnostic and management information capability required to manage the toll-free telephone system most effectively.

FY 1981 ACCOMPLISHMENTS:

In FY 1981 we estimate we will directly assist some 38.2 million taxpayers through the walk-in, telephone, and correspondence activities. In addition, through tax information and education efforts, we will be providing millions more taxpayers the information they need to voluntarily comply with the tax laws and regulations. Though IRS is unable to keep pace with the growth in demand for telephone service, we estimate we will answer almost 30.3 million telephone inquiries, and be able to assist almost 8 million taxpayers who walk or write-in to our offices. Moreover, on-site technical tax assistance will be provided in 6 foreign countries, and programs will be developed and implemented for approximately 400 international tax officials.

FY 1982 PROGRAM:

In FY 1982 we estimate we will directly assist some 37.0 million taxpayers through the walk-in, telephone, and correspondence activities. Through tax information and education efforts, we will also continue to provide millions more taxpayers the information they need to voluntarily comply with the tax laws and regulations. We estimate we will answer about 33 million telephone inquiries by diverting some resources from the walk-in activity, though we will be unable to keep pace with the growth in demand for telephone service. We also estimate we will be able to assist almost 4.0 million taxpayers who walk or write-in to IRS offices, although we will no longer offer return preparation assistance. This represents some 2.3 million fewer taxpayers assisted in the walk-in program than in the March submission but some 1.0 million more taxpayers assisted in the telephone program. On-site technical tax assistance will be provided in 9 foreign countries and programs will be developed and implemented for some 400 international tax officials.

FY 1983 PROGRAM:

A tentative decision has been made to eliminate the Taxpayer Service function in FY 1983. A significant portion of the work done by the Taxpayer Service Program involves tax account assistance for taxpayers. This work will have to be absorbed by revenue producing programs if Taxpayer Service is eliminated.

SUMMARY OF FUNDING AND PLANNING LEVELS
Program Summary

BUREAU: INTERNAL REVENUE SERVICE

Program Unit Number: 09-09

PROGRAM NAME: TAXPAYER SERVICE

Appropriation Code: 20-0912-0-1-803

Sub-Program	FY 1981		Revised FY 1982		FY 1983 (Agency Req.)	
	Ave. Pos.	Amount ($000)	Ave. Pos.	Amount ($000)	Ave. Pos.	Amount ($000)
OFFICE/CORRESPONDENCE	1,235		574		-	
TAXPAYER TELEPHONE ASSISTANCE	2,826		3,069		-	
TAXPAYER EDUCATION	129		106		-	
TAXPAYER INFO./PUBLIC AFFAIRS	97		97			
TAX ADMINISTRATION ADVISORY SERVICES (TAAS)	14		14		-	
TAX FORMS DISTRIBUTION	79		1/		-	
REIMBURSABLE SERVICES	-		27		-	
RELATED ADMIN. SUPPORT	189		175		-	
RELATED CENTRALIZED SERVICES	19		18		-	
ADP CONTRACTUAL SERVICES		17		40		-
PROGRAM TOTAL (BA)	4,588	133,301	4,080	135,030	-	-
TOTAL OUTLAYS		131,968		134,490		-

PROGRAM CRITICAL MEASURES	1981	1982 Revised	1983 Request
OFFICE AND CORRESPONDENCE CONTACTS (000's)	7,966	3,966	-
TELEPHONE CALLS ANSWERED (000's)	30,260	32,960	-
TPE PARTICIPANTS (000's)	254	207	-
PUBLICATIONS DISTRIBUTED (000's)	5,450	5,200	-
TAAS ADVISORY AND IPA ASSIGNMENTS COORDINATED	24	31	-
TAAS INTERNAT'L VISITORS ACCOMMODATED/PROGRAMS DEVELOPED	400/100	400/100	-

1/For FY 1982 and Following Fiscal Years, These Staff Years are Shown In The Tax Forms Distribution Program.

Date: OCT 29 1981

MEMORANDUM FOR: DEPUTY SECRETARY MC NAMAR

From: Commissioner of Internal Revenue

Subject: FY 1983 Funding Levels for the Taxpayer Service and Problem Resolution Programs

As promised in my memorandum of October 21 (copy attached), I am forwarding the attached paper for your use in arriving at a final decision on FY 1983 funding for these programs.

As you know, a final decision on these programs should be reached before Treasury transmits our FY 1983 budget to OMB. I am available to discuss this further at your convenience.

Attachments
October 21 memorandum
IRS Paper

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Ex.
Surname	Kump	Beck	Davis			
Initials / Date	/ 10/27	/ [illegible]	/ 10/28	/	/	/

Form DS-3129
Department of the Treasury

Date: OCT 2 1 1981

MEMORANDUM FOR: Deputy Secretary McNamar

From: Commissioner of Internal Revenue Service

Subject: FY 1983 Treasury Budget Recommendations to OMB

Tim, I understand that the Department has forwarded to OMB advance figures setting forth FY 1983 ceiling amounts for the Treasury Bureaus and that the figure forwarded for IRS would abolish the Taxpayer Service Program and eliminate the Problem Resolution Program. (Summary attached).

Almost half of the current Taxpayer Service budget is spent in providing taxpayer account assistance. This is an essential part of the revenue production process, giving taxpayers a point of contact to resolve their problems such as non-receipt of W-2's and their questions concerning balance due and other types of computer-generated notices. Our experience shows that Taxpayer Service resolves inquiries on about 14% of the 40 million notices issued each year. The critical point is that elimination of Taxpayer Service will not reduce these inquiries. In the absence of Taxpayer Service, they would most likely have to be resolved in the Collection Division, whose personnel would have to be diverted from their normal revenue producing responsibilities.

A second point concerns the compliance impact of eliminating Taxpayer Service. Absent IRS answers to requests for information and interpretation of hard to understand laws, taxpayers will obviously tend to resolve questions in their favor. Given the operation of our self-assessment tax system with its currently decreased levels of audit coverage, the Service will only be able to recover a small portion of the total revenue that would be so lost.

Elimination of Taxpayer Service would sharply curtail taxpayer access to the IRS, an Agency which taxpayers are forced, under penalty of law, to deal with. Treasury's FY 1983 budget would also not provide

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Ex Sec
Surname	Sheetz	J. Kurz	HEIRONIMUS	DAVIS		
ials / Date	RCS / 10/20	[illegible] / 10/[illegible]	TJ / 10/30	JTD / 10/20	/	/

for seed money to promote volunteer tax assistance under the VITA program nor would it provide for dissemination of educational and informational materials to the general public through the media, educational institutions, and other volunteer groups. I anticipate severe negative reaction from the public and from the Congress.

Finally, resources would not be available for the foreign and domestic tax administration assistance program, which would be detrimental to U.S. foreign and domestic policy objectives.

For these reasons, I ask that you and the Secretary reconsider elimination of these programs. I will send you within the next few days an option paper which outlines several levels of Taxpayer Service and Problem Resolution, including estimated savings and impact on the tax system of each.

Attachment

OCT 16 1981

Treasury Recommended OMB Submission
Internal Revenue Service

	SYrs	($000's) Amount
FY 1982 March Budget	88,000	2,565,649
September Reduction	-4,052	- 112,098
September Budget	83,948	2,453,551
Supplemental Cost Increases:		
Unemployment Compensation	--	51,000
Telecommunications	--	13,983
Postage (15¢-18¢)	--	12,000
Subtotal	83,948	2,530,534
Costs to Maintain Staff in FY 1983:		
Postage (18¢-20¢)	--	8,000
Reinvest Productivity Savings		17,855
1983 Cost Increases		85,397
ADP Modernization Initiatives	303	99,209
Subtotal	84,251	2,740,995
Less:		
Reduction in Taxpayer Service	-4,080	- 128,968
Reduction in Problem Resolution	- 190	- 5,301
Cost Increases related to Taxpayer Service	--	- 6,501
Proposed FY 1983 Level	79,981	2,600,225

Revenue initiatives separately considered.

Internal Revenue Service
FY 1983 Funding Levels for the Taxpayer Service and Problem Resolution Programs

FY 1982 Funding Summary	Taxpayer Service		Problem Resol	
	Avg. Pos.	$(in 000)	Avg. Pos.	$(in
March Budget	4,453	$142,935	203	$
Less: September Reduction	-373	-7,931	-13	
President's Revised Budget	4,080	$135,004	190	$

FY 1983 Program Level Summary				
• Eliminate all Walk-In Assistance	-467 3,613	-12,361 $122,643		
• Eliminate Tax Law Assistance by Telephone	-1,826 1,787	-54,938 $ 67,705		
• Eliminate Tax Account Assistance by Telephone	-1,383 404	-56,170 $ 11,535		
• Abolish the Problem Resolution Program			-190	-5
• Eliminate All Taxpayer Information and Education and Correspondence Activities	- 404	-11,535		
Total Program Eliminated	-0-	$-0-	-0-	$-

FY 1982 Funding Impact

- **Eliminate All Tax Return Preparation Assistance**

--September budget reduction of 373 average positions and $7.9 Million eliminated all walk-in tax return preparation assistance for over 2 million taxpayers

--affected over 750 local posts of duty throughout the U.S. and 16 foreign countries

--low income and elderly taxpayers most severely impacted

--90% of taxpayers assisted with returns preparation have AGIs below $10,000; 98% below $15,000

--Staffing for Taxpayer Service has been reduced by 16.3% since 1980

FY 1983 Program Level Impact

	Avg. Pos.	$(in 000)
• Eliminate All Walk-in Assistance	-467	-$12,361

--This additional cut of 4

--Would impact some 7 million walk-ins who have questions about their tax accounts, about tax law or need tax forms -- for example:

> --This notice says I owe the government $250; I've checked my records and I don't understand the reason. Please explain it to me.
>
> --This is April 14, and I don't have the necessary documents to file my return by tomorrow. Can I get an extension form today to avoid a late filing penalty?
>
> --I understand that the law requires that I have an alien clearanc before I return to my own country. Can you give me one?

--Significant negative Congressional reaction likely

--Significant negative public reaction likely

> --Why can those who fail to comply receive help from Examination and Collection while those who try to comply cannot?

--At this level of reduction, 326 staff years added to telephone program to handle estimated 70% of present walk-in clientele who would attempt to call IRS

> --400,000 alien clearances each year must, by law, still be prepared by IRS personnel; would offset shown savings by about 74 staff years
>
> --other issues require face-to-face contact; would impact negatively on compliance personnel in posts-of-duty at a higher cost

--IRS disaster assistance would be eliminated, or would have to be handled by compliance personnel

> --in 1981 IRS helped taxpayers prepare amended returns and casua loss claims resulting from Presidentially declared disasters in 11 states and 54 counties caused by floods, hurricanes, and tornado

	Avg. Pos.	($ in 000)
● Eliminate Tax Law Assistance by Telephone	-1,826	-$54,938

--This very substantial program reduction would totally eliminate all help to taxpayers in interpreting tax law provisions presently available by telephone

> * --Over 27 million taxpayers would lose this assistance
>
> --Large increase in correspondence on tax law questions would result ↓
>
> > --these could not be answered; would cause further negative public and Congressional reaction

--Office of International Operations technical help for over 120,000 Americans residing abroad would be eliminated, including tax seminars for civilian and military personnel

--many special provisions of tax law apply

--in 1981, help provided in over 133 cities in 76 countries in which there are posts of duty or to which assistance visits are made

--With no IRS help in interpreting the law, large numbers of taxpayers would interpret the law in a way favorable to themselves, or ignore it, with little likelihood of detection

*--Potential revenue losses would be great, with widespread deterioration of voluntary compliance possible.

--only 1% reduction in compliance rate costs government an estimated $4 billion annually

	Avg. Pos.	($ in 000)
• Eliminate Tax Account Assistance by Telephone	-1,383	-$56,170

--This cut would result in total elimination of all account assistance to taxpayers by telephone

--Would affect almost 13 million taxpayers who call IRS concerning their accounts, in response to notices or other correspondence, or to secure forms or instructions--for example:

--I need my refund to pay some medical bills. Can you tell me when I will receive a check?

--I received a notice informing me I owe $600 in taxes. I don't have the money right now; can I make arrangements to pay in installments?

--A substantial increase in correspondence would also result

--No real savings to IRS

--responding to account and related questions is an essential part of the revenue collection process

--should this reduction to Taxpayer Service appropriation be made, equivalent (or greater) resources would have to be set aside in other components of the Service (Collection, Examination) to respon

--All account assistance to over 100,000 taxpayers residing overseas would be terminated

--Taxpayer Service support of Problem Resolution Program also eliminated

	Avg. Pos.	($ in 00
• Abolish the Problem Resolution Program (PRP)	-190	-$5,32

--This would eliminate the Service's complaint-handling system, one whi has been effective in uncovering and resolving organizational, procedural, and systemic problems

--Some 300,000 cases are resolved each year by PRP. Cases involve sensitive taxpayer problems which have not been resolved through normal administrative channels

--missing refund checks

--payments made but not credited

--complaints about repetitive audits

--erroneous billings with no response to repeated inquiries

--Would result in large increase in taxpayer complaint correspondence, with associated cost to other functions

--Program has been highly publicized, with much Congressional interest

--Congressional pressure to establish a statutory, independent Taxpayer Ombudsman would increase

	Avg. Pos.	($ in 000
• Eliminate All Taxpayer Information, and Education and Correspondence Activities	-404	-$11,535

--Elimination of all tax information and education activities would seriously impair public's awareness of tax law provisions and responsibilities under the law

--There would be no public service announcements regarding tax law changes

--Serious reduction in IRS public "presence" due to loss of free media access, including television time equivalent to $5.5 million

--There would be no program for Volunteer Income Tax Assistance (VITA) or Tax Counseling for the Elderly (TCE), programs which involve some 47,000 volunteers and over 600,000 taxpayers

--Other special education efforts would be lost including Student Tax Clinics, Small Business Workshops, Individual Tax Education Workshops, Practitioner Institutes, and Understanding Taxes programs

--these programs reach over 5.3 million people

--Taxpayers who write to IRS regarding tax law or account questions (some 100,000 each year) would no longer be assisted

  --A high percentage of correspondence resulting from IRS generated notices must still be answered, diverting resources from direct revenue-producing activities

--IRS efforts to jointly administer tax programs with the governments of several foreign nations, such as Saudi Arabia, Egypt, Jamaica, wou end with the elimination of Tax Administration Advisory Services, as similar efforts with State, and local governments.

  --would eliminate study programs in tax administration for some 450 top level tax officials from other countries visiting IRS

  --would eliminate IRS focal point for dealings with Inter-American Center of Tax Administrators (CIAT), International Monetary Fund (IMF), Organization of American States (OAS) and similar internatonal groups with tax interests

  --would be detrimental to U.S. foreign and domestic relations -

Date: NOV 27 1981

MEMORANDUM FOR: DEPUTY SECRETARY MCNAMAR

From: Commissioner of Internal Revenue

Subject: Proposed Elimination of Taxpayer Service and Problem Resolution in Fiscal Year 1983

Tim, attached is a brief summary of the impact on tax administration of eliminating the Taxpayer Service and Problem Resolution Program in IRS in fiscal year 1983. As you know, the 1983 budget appeal letter you signed November 14 eliminated the funds requested for these programs for fiscal year 1983.

I would like to meet with you and the Secretary as soon as possible and attempt to reverse your thinking on this issue. We cannot afford the rate of ADP modernization funded in the fiscal year 1983 budget if it means that we must dismantle a critical part of tax administration to finance it.

Attachment

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Ex. Sec.
Surname	Kump					
Initials / Date	/ 11/24	/	/	/	/	/

Form DS-3129
Department of Treasury

Summary
IRS Taxpayer Service and Problem Resolution Programs

	Staff Years	Amount (in millions)
Taxpayer Service Program	4,080	$135.4

Even if the resources IRS now devotes to Taxpayer Service were eliminate there is certain essential work that must be performed. This work is either required by law or generated from IRS initiated contacts with taxpayers -- for example, answering questions from taxpayers regarding bills we have sent them — and constitutes about 40 percent of the Taxpayer Service program, representing some 1,500 staff years and $67.6 million. There is another group of activities, as indicated in the attached, that in my judgment are absolutely essential to effective front-line operations in our 59 District Offices. These are the District Public Affairs Officer positions and activities which have been a key element in conveying tax information to local communities (121 staff years). Also, in my judgment, we cannot eliminate the Tax Administration Advisory Service through which IRS jointly with the International Development Cooperation Agency administers tax assistance programs with several foreign nations, and which is the focal point in IRS dealings with international monetary groups and other international organizations with tax administration interests (14 staff years).

The remainder of the Taxpayer Service Program is principally concerned with providing tax law assistance, which involves responding to some 27.8 million taxpayers who call, visit, or write IRS for assistance in interpreting tax law (2,240 staff years). IRS also provides a very important taxpayer education program at the local community level involving some 150,000 volunteers and participants who assist low-income and elderly taxpayers, and provid tax education for high school students, small business persons, and practition (222 staff years). The elimination of this portion of Taxpayer Service to sav a little more than 2,400 staff years will, in my judgment, have a serious negative impact on voluntary compliance. I cannot quantify what it will be, but w need to keep in mind that for every 1 percent reduction in voluntary complianc revenue receipts go down $4 billion annually. This would be happening at a ti when we are searching for ways and doing everything we can to attempt to close a major tax gap in this country estimated at some $70 billion by 1984.

Problem Resolution Program	190	$ 5.3

Elimination of the Problem Resolution Program (PRP) would undermine the capability of IRS to timely resolve sensitive taxpayer problems. In addition to serving as a highly successful complaint handling system, PRP has been effective in resolving organizational, procedural and systemic problems which increase IRS administrative costs and multiply public frustrations. The progra has strong Congressional support and has been instrumental in averting creation of an independent Ombudsman, as called for by pending legislation. With curren staffing of 190 positions and $5.3 million, PRP will handle some 320,000 complaints during FY 1982. If no funding is provided to the PRP activity, the account related issues handled by that function would become the responsibilit of Compliance personnel, further deteriorating their overall revenue productio capabilities. In addition, a 1978 GAO review found that control of complaints by PRP prevent unnecessary and time-consuming recontacts by taxpayers. By GAO's estimate, without PRP's controls, there would be 25 percent more contac resulting in about 100 additional staff years worth of tax account workload.

In summary, even if resources were not provided in the budget for FY 198 for Taxpayer Service, we would need to redirect approximately 1,800 staff years — 1,500 for Compliance-generated requirements for tax account assistan 135 for Taxpayer Information/Tax Administration Advisory Service, and 190 for the Problem Resolution Program. The bulk of these staff years would probably have to come from our tax enforcement programs. As you know, our Salaries and Expenses appropriation, consisting mostly of National Office functions, was recently reduced by 12 percent and the Returns Processing appropriation by 6 percent. Tax enforcement programs are the only significant ones remaining. And, if we were to divert 1,800 staff years of effort from these programs, we would lose $500 million in direct revenue annually.

Attachments
Summary
Statistical Data

Statistical Data
IRS Taxpayer Service and Problem Resolution Programs

Program		Fiscal Year 1983	
		Workload Impact (units in millions unless otherwise noted)	Estimated Staff Years
Total Program			4,270
I. General Programs:			
A. Tax Law Assistance		27.8	2,181
--would totally eliminate 27.8 million contacts with taxpayers who call or visit an IRS office for assistance in interpreting tax law provisions			
Calls			
-- Individ. Income Tax	13.0		
— Business related tax	6.5		
-- Empl. Plans/Exempt Org.	0.5		
-- Other (Excise, gift, etc.)	5.2		
Walk-In Assistance	2.6		
B. Correspondence		0.1	47
--would eliminate taxpayer assistance to taxpayers who write IRS for help or clarification			
C. Taxpayer Education		5.3	222
--would eliminate IRS support of community volunteer tax assistance program, tax educational efforts for practitioners, small businesspersons, special tax programs for graduate law and accounting students and IRS secondary school tax program			
Volunteer Income Tax Assistance			
--37,000 volunteers trained			
--293,000 tax returns prepared for low income, other taxpayers with special needs			

	Workload Impact	Estimated Staff Years
Practitioner Institutes --600 classes conducted --71,000 tax practitioner participants		
Small Business Workshops --1,900 classes conducted --41,000 participants from small business community		
Your Business Tax Kit --15,000 kits provided to taxpayers with counseling on business tax responsibilities		
Audio Program --12,000 individuals used audio tapes on taxes provided to 2,600 libraries		
Student Tax Clinics --285 graduate students in 21 colleges provide help to some 350 taxpayers during tax return examinations		
Magnetic Media --400 participants attended IRS sessions on tax filing by magnetic media		
Understanding Taxes --5.2 million secondary school students in IRS tax program		
D. Disaster Assistance --would eliminate assistance to taxpayers in preparing amended returns and casualty losses resulting from Presidentially		12

	Workload Impact	Estimated Staff Years
declared disasters caused by floods, hurricanes and tornadoes; help in 10 states, 35 counties in 1981		
Total General Assistance Programs ($62.3 million)		2,462

The balance of the program is required by law or represents essential work that must be performed.

II. Legislatively Required:		
A. Completing Alien Clearances	0.4	75
—documentation required before aliens may depart the country		
B. Tax Counseling for the Elderly Program	10,000 Volunteers	25
—IRS trained volunteers offer free tax preparation help to the elderly in local communities	79,000 tax returns prepared	
III. Administratively Unavoidable:		
A. Taxpayer Account Assistance	12.8	1,383
—would affect some 13 million taxpayers who require clarification regarding their accounts, in response to notices or other correspondence, or to secure forms or instructions; would also affect the Service's ability to resolve taxpayer cases in the pipeline as a result of the Problem Resolution Program		
Telephone Assistance		
--Refund Questions	2.6	
--Explaining IRS notices	1.9	
--Providing account info.	1.8	
--Forms	3.5	
	9.8	

	Workload Impact	Estimated Staff Years
Walk-In Assistance		
--Account related	0.3	
--Notice related	0.1	
--Forms	2.6	
	3.0	
Subtotal ($67.6 million)		1,483
B. Taxpayer Information		121

--would eliminate radio, television, print, film items which provide essential tax information to large numbers of taxpayers at minimal cost to the government and which publicize IRS enforcement and compliance activities

--abolish Public Affairs Offices in all 59 Districts eliminating: coordination of the release of information to taxpayers through the mass media on provisions of the tax law and changes and taxpayer rights, the focal point for media contacts within the Service, liaison with local congressional offices, trade associations, tax practitioners and business and civic groups and essential public information efforts to deter tax violations and gain greater compliance

	Workload Impact	Estimated Staff Years
C. Tax Administration Advisory Services		14

--would eliminate jointly administered tax programs with foreign governments (e.g. Saudi Arabia, Egypt, Jamacia), state and local governments, as well as other international tax programs

Jointly Administered Tax Programs

--programs for 7 countries, 4 territorial governments

Foreign Official Study Programs

--450 foreign participants

	Workload Impact	Estimated Staff Years
Coordination with International tax agencies --such as Inter-American Center of Tax Administrators (CIAT), International Monetary Fund (IMF), Organization of American States (OAS)		
Mandatory Taxpayer Service Work ($73.1 million)		1,618
IV. Problem Resolution	0.3	190
Total Mandatory Work ($78.4 million)		1,808

	Staff Years	$ in millions
Total Cost	4,270	$140.7
Less Cost of Mandated Work	1,808	$ 78.4
Net Budget Savings	2,462	$ 62.3

Estimated Annual Direct Revenue Loss $500 million

Internal Revenue Service

Budget Estimates
Fiscal Year 1983

☐ **Office of Management and Budget Submission**

☑ **Congressional Submission**

Prepared by:

Office of Assistant Commissioner (Resources Management)

Fiscal Management Division

▶ *CAUTION*

The information contained herein is of a confidential nature and for the use of Internal Revenue Service and other Federal employees of the Executive Branch in the conduct of official Government business. The restriction will no longer exist after the President delivers the annual message to the Congress for the pertinent budget year.

Summary, Internal Revenue Service

THE DEPARTMENT OF THE TREASURY
ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1982
(Dollars in thousands)

	Perm. Pos.	Ave. Pos.	Amount
FY 1982 Appropriation (Continuing Resolution) Enacted by Congress	76,417	84,358	$2,465,551
Adjustments:			
(1) Proposed Supplemental:			
a. Program Supplemental	3,160	1,005	$ 38,500
b. Mandatory Cost Increases	--	--	84,983
Authorized Level for FY 1982	79,577 2/	85,363	$2,589,034
Estimate, FY 1983	81,845	88,673	$2,917,159

DIGEST OF BUDGET ESTIMATES BY APPROPRIATION FISCAL YEAR 1983

	Appropriation FY 1981		Authorized Level FY 1982		Budget Estimate FY 1983		Increase or Decrease (-) for 1983					
							Total Changes		Program Changes		Other Changes	
	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount
1. Salaries and Expenses...	4,523	162,194	3,922	156,308	3,918	171,102	- 4	14,794	118	8,334	- 122	6,460
2. Taxpayer Service and Returns Processing.....	32,806	829,461	30,824	891,118	29,286	957,679	-1,538	66,561	351	75,300	-1,889	- 8,739
3. Examinations and Appeals................	29,260	901,542	29,715	917,376	30,910	1,016,634	1,195	99,258	1,574	45,589	- 379	53,669
4. Investigations and Collection............	19,567	572,272	20,902	624,232	24,559	771,744	3,657	147,512	4,450	135,315	- 793	12,197
Unobligated balance.........		14,274										
Total appropriation, authorized level and budget estimate.......	86,156	2,479,743	85,363	2,589,034	88,673	2,917,159	3,310	328,125	6,493	264,538	-3,183	63,567
Permanent positions established...............	(76,575)		(79,577) 2/		(81,845)		(2,268)		(6,224) 1/		(-3,956)	

1/ The estimated cost of filling in 1983 the 6,224 new positions is $150,661,000. This cost includes personnel compensation and benefits, training, travel, material and facilities support.

2/ Reflects correction from data shown in Budget Appendix.

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1983
(Dollars in Thousands)

	Appropriation 1			Appropriation 2			Appropriation 3			Appropriation 4			Total		
	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount
Program Changes:															
1. Maintaining tax administration ----------	117	110	5,405	69	62	2,929	67	349	12,693	449	450	14,211	702	971	35,238
2. ADP equipment replacement program ----------------				78	78	11,578							78	78	11,578
3. Tax systems office automation	8	8	2,929	211	211	60,793							219	219	63,722
4. Improving tax enforcement							1,225	1,225	32,896	4,000	4,000	121,104	5,225	5,225	154,000
Total Program Changes ----	125	118	8,334	358	351	75,300	1,292	1,574	45,589	4,449	4,450	135,315	6,224	6,493	264,538
Other Changes:															
Increases necessary to maintain current levels:															
1. Net cost of within-grade salary increases required by statute --------------			470			1,057			2,340			1,426			5,293
2. Advancement of trainees --			462						338			1,615			2,415
3. To provide for full-year cost of civilian pay increase authorized for FY 1982 ------------			8,888			25,576			35,217			23,411			93,092
4. Employees compensation fund									1,033						1,033
5. Federal Buildings Fund ----			768			8,958			9,379			5,518			24,623
6. FTS and other communications			323			1,666			1,960			1,405			5,354
7. Increased payments to postal service ------------------			18			308			125			74			525
8. Printing ----------------			134			6,650			1,125			719			8,628
9. Support services and facilities --------------			755			10,444			2,448			2,013			15,660
10. Inter-appropriation transfer ---------------	53	48	1,469	-41	-36	-1,280	-32	-29	-797	20	17	608			
11. Rate increases to training base ------------------			198			1,098			4,559			2,021			7,876
12. Cost adjustment to staffing						5,130			6,461			2,445			14,036
13. Annualization of ADP equipment ---------------						10,721									10,721
14. Increases to enforcement activities --------------												1,825			1,825
Subtotal, Other Increases	53	48	13,485	-41	-36	70,328	-32	-29	64,188	20	17	43,080			191,081
Reductions, nonrecurring costs and savings:															
1. Nonrecurring -------------	-250	-170	-7,025	-85	-85	-27,429	-1,225	-350	-10,519	-1,988	-810	-30,883	-3,548	-1,415	-75,856
2. Program reductions --------				-408	-1,768	-51,638							-408	-1,768	-51,638
Subtotal, reductions, nonrecurring costs and savings ----------------	-250	-170	-7,025	-493	-1,853	-79,067	-1,225	-350	-10,519	-1,988	-810	-30,883	-3,956	-3,183	-127,494
Total Other Changes -----	-197	-122	6,460	-534	-1,889	-8,739	-1,257	-379	53,669	-1,968	-793	12,197	-3,956	-3,183	63,587
Total Increases or Decreases 1983 Compared with Proposed Authorized Level ------------	-72	-4	14,794	-176	-1,538	66,561	35	1,195	99,258	2,481	3,657	147,512	2,268	3,310	328,125

February 8, 1982

INTERNAL REVENUE SERVICE
Summary of Budget Estimates

The budget proposed for IRS in Fiscal Year 1983 provides for employment totaling 88,673 average positions and budget authority totaling $2,917.2 million. Changes from Fiscal Year 1982 total 3,310 average positions and $328.1 million.

One of the important objectives of this budget is to move the Internal Revenue Service ahead in modernizing its ADP system and improving the efficiency of our field offices by introducing new systems and procedures that make use of current technology. The budget includes approximately 300 average positions and $75.3 million for this purpose. These resources continue the Service's Equipment Replacement Program to replace aged and obsolete computers for processing tax returns and maintaining tax accounts. Funds are provided for the implementation in Fiscal Year 1983 of automated systems in our Collection offices to improve the efficiency and accuracy of collection procedures, and to develop similar improvements in the Examinations program. This budget also provides equipment for improved sorting and handling of mail in our tax processing centers, and the installation of modern equipment for entering information directly from tax returns into the computers. The introduction of Optical Character Recognition (OCR) equipment is also planned for FY 1983 in certain aspects of data processing where this application proves effective. These initiatives to modernize the Service's tax processing and field office operations are essential to effective tax administration in the 1980's.

The other major objective of this budget proposal for Fiscal Year 1983 is that of improving tax enforcement. An equitable tax system requires that unreported tax is identified and assessed and that unpaid tax is collected. This proposed budget provides some 5,225 average positions and $154 million to improve the Service's ability to deal in a firm and fair way with problems of noncompliance. An additional 1,000 average positions are proposed for the Examinations program to increase the number of audits of corporations and high income individual tax classes where underreporting of tax liability is most apparent. An additional 4,000 average positions are proposed for the Collection program to collect substantial backlogs of taxes that are due but unpaid, and to secure tax returns from those who should be filing but are not. An additional 225 average positions are proposed for the Appeals program to expedite the administrative settlement of taxes in dispute. These program improvements are necessary to assure that taxpayers pay their share of the tax burden and to secure the revenues provided for under existing tax law. Based on experience the Service estimates that this increased Collection and Examination capability will result in increased revenues of approximately $2.1 billion that would otherwise not come into the Treasury in 1983.

This budget also provides for basic additional funding to meet unavoidable cost increases and to maintain most program levels in 1983. These costs include increased postage and telecommunication rates, funding for employee pay increases authorized in October 1981, and the new requirement of paying for unemployment compensation related to the Service's filing season work force. These maintenance costs total some $63 million, a net increase after offsets for non-recurring costs and program reductions.

Finally, this budget includes resources for a reduced taxpayer service program. Every effort will be made to meet essential tax information needs within this proposed level.

A supplemental appropriation request totaling 1,005 average positions and some $123.5 million has been submitted for Fiscal Year 1982. Some $85 million of this request is necessary to meet increased postage, telecommunications, and unemployment compensation costs the Service faces this Fiscal Year. The supplemental request also provides 1,005 additional average positions and $38.5 million to accomplish much of the hiring and training of Collection and Examination personnel this year in order to realize improved tax enforcement objectives in 1983. Within this amount, the Service will also be able to reduce the current bottleneck in tax litigation, collect additional delinquent tax this year, and begin work on ADP modernization projects.

Resources requested in this budget for fiscal year 1982 do not include increased pay costs totaling $91.3 million.

For Fiscal Year 1983, the Department proposes a revised structure for IRS appropriations and budget activities in keeping with the recent IRS reorganization approved by the Secretary. This structure aligns the Internal Revenue Service budget with the three basic functions of the IRS: the processing of returns and related documents and the maintenance of tax accounts; the determination of correct tax liability through tax return examinations and appeals; and tax enforcement responsibilities of collecting unpaid tax and investigating deliberate tax secure the revenues provided for under existing tax law. Based on experience the Service estimates that this increased Collection and Examination capability will result in increased revenues of approximately $2.1 billion that would otherwise not come into the Treasury in 1983.

This budget also provides for basic additional funding to meet unavoidable cost increases and to maintain most program levels in 1983. These costs include increased postage and telecommunication rates, funding for employee pay increases authorized in October 1981, and the new requirement of paying for unemployment compensation related to the Service's filing season work force. These maintenance costs total some $63 million, a net increase after offsets for non-recurring costs and program reductions.

Finally, this budget includes resources for a reduced and refocused Taxpayer Service program that concentrates on answering questions and resolving taxpayer problems once the ✓ return has been filed with the IRS.

a major change

A supplemental appropriation request totaling 1,005 average positions and some $123.5 million has been submitted for Fiscal Year 1982. Some $85 million of this request is necessary to meet increased postage, telecommunications, and unemployment compensation costs the Service faces this Fiscal Year. The supplemental request also provides 1,005 additional average positions and $38.5 million to accomplish much of the hiring and training of Collection and Examination personnel this year in order to realize improved tax enforcement objectives in 1983. Within this amount, the Service will also be able to reduce the current bottleneck in tax litigation, collect additional delinquent tax this year, and begin work on ADP modernization projects.

Resources requested in this budget do not include a pending supplemental to cover increased pay costs totaling $91.3 million in fiscal year 1982.

For Fiscal Year 1983, the Department proposes a revised structure for IRS appropriations and budget activities in keeping with the recent IRS reorganization approved by the Secretary. This structure aligns the Internal Revenue Service budget with the three basic functions of the IRS: the processing of returns and related documents and the maintenance of tax accounts; the determination of correct tax liability through tax return examinations and appeals; and tax enforcement responsibilities of collecting unpaid tax and investigating deliberate tax evasion. The Service believes that this realignment of Internal Revenue Service appropriations better reflects the principal functions of tax administration and significantly clarifies the relationship of resources to objectives. It will enhance the ability to manage, control and oversee IRS operations both within the Executive Branch and the Congress. Limited authority (2%) to transfer funds between appropriations has been requested to avoid disruption to programs during the adjustment to this new appropriation structure.

Taxpayer Service and Returns Processing, Internal Revenue Service

THE DEPARTMENT OF THE TREASURY
ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1982
(Dollars in thousands)

	Perm. Pos.	Ave. Pos.	Amount
1982 Appropriation (Continuing Resolution) Enacted by Congress	22,478	30,739	$812,886
Adjustments:			
(1) Proposed Supplemental:			
a. Program Supplemental	85	85	$ 6,385
b. Mandatory Cost Increases	--	--	71,847
Authorized Level for FY 1982	22,563 2/	30,824	$891,118
Estimate, FY 1983	22,387	29,286	$957,679

DIGEST OF BUDGET ESTIMATES BY ACTIVITY FISCAL YEAR 1983

	Appropriation FY 1981		Authorized Level FY 1982		Budget Estimate FY 1983		Increase or Decrease (-) for 1983					
							Total Changes		Program Changes		Other Changes	
	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount
1. Data processing operations..........	26,799	593,764	25,416	644,748	25,582	745,261	166	100,513	351	75,230	- 185	25,283
2. Statistical reporting.	682	17,544	590	15,840	577	16,433	- 13	593		36	- 13	557
3. Taxpayer service......	5,325	218,153	4,818	230,530	3,127	195,985	-1,691	-34,545		34	-1,691	-34,579
Unobligated balance.......		8,176										
Total appropriation, authorized level and budget estimate.....	32,806	837,637	30,824	891,118	29,286	957,679	-1,538	66,561	351	75,300	-1,889	- 8,739
Permanent positions established............	(21,911)		(22,563) 2/		(22,387)		(- 176)		(358) 1/		(- 534)	

[1] The estimated cost of filling in 1983 the 358 new positions is $7,476,000. This cost includes personnel compensation and benefits, training, travel, material and facilities supports

[2] Reflects correction from data shown in Budget Appendix.

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1983
(Dollars in thousands)

	Activity 1			Activity 2			Activity 3			Total		
	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount	Pos.	Ave. Pos.	Amount
Program Changes:												
1. Maintaining tax administration -------	69	62	2,893			36				69	62	2,929
2. ADP equipment replacement program ----	78	78	11,578							78	78	11,578
3. Tax systems office automation --------	211	211	60,759						34	211	211	60,793
Total Program Changes --------------	358	351	75,230			36			34	358	351	75,300
Other Changes:												
Increases necessary to maintain current levels:												
1. Net cost of within-grade salary increases ---------------------------			1,012			22			23			1,057
2. To provide for full-year costs of civilian pay increase authorized for FY 1982 ----------------------------			20,523			625			4,428			25,576
3. Federal Buildings Fund --------------			7,453			188			1,317			8,958
4. FTS and other communications ---------			1,357			26			283			1,666
5. Increased payments to postal service -			121			1			186			308
6. Printing ----------------------------			1,165			13			5,472			6,650
7. Support services and facilities ------			7,242			56			3,146			10,444
8. Inter-appropriation transfer ---------	- 41	- 36	- 1,280							- 41	- 36	- 1,280
9. Rate increase to training base -------									1,098			1,098
10. Cost adjustments for staffing --------			5,130									5,130
11. Annualization of ADP equipment -------			10,721									10,721
Subtotal Other Increases ------------	- 41	- 36	53,444			931			15,953	- 41	- 36	70,328
Reductions, nonrecurring costs and savings:												
1. Nonrecurring ------------------------	- 85	- 85	- 27,274			- 5			- 150	- 85	- 85	-27,429
2. Program reductions ------------------	- 3	- 64	- 887	-16	-13	-369	-389	-1,691	-50,382	-408	-1,768	-51,638
Subtotal, reductions, nonrecurring costs and savings ------------------	- 88	-149	- 28,161	-16	-13	-374	-389	-1,691	-50,532	-493	-1,853	-79,067
Total Other Changes ----------------	-129	-185	25,283	-16	-13	557	-389	-1,691	-34,579	-534	-1,889	- 8,739
Total Increases or Decreases 1983 compared with Proposed Authorized Level ---------	229	166	100,513	-16	-13	593	-389	-1,691	-34,545	-176	-1,538	66,561

SUMMARY JUSTIFICATION OF FY 1983 BUDGET ESTIMATES

Taxpayer Service and Returns Processing Background

The Taxpayer Service and Returns Processing Appropriation provides funding for three activities: Data Processing Operations, Statistical Reporting, and Taxpayer Service.

The Data Processing Operations Activity is responsible for receiving and processing tax returns, issuing refunds and notices, accounting for revenues, and developing and maintaining all Service computer systems. Statistical Reporting includes preparation of statistical information on income and other aspects of the tax system. Taxpayer Service aids voluntary compliance with Federal Tax Laws on the part of all taxpayers by informing them of their responsibilities, by providing service which will assist them in meeting their obligations, by responding to requests for disclosure of official information, by performing safeguard reviews of agencies which receive confidential tax information; and by providing foreign, state and local tax administration assistance.

This appropriation funds the Returns Processing and Accounting, Taxpayer Service, Disclosure Operations, and Tax Administration Advisory Services (TAAS) Divisions in the National Office; the Office of the Assistant Regional Commissioner (Taxpayer Service and Returns Processing), Taxpayer Service and Disclosure field operations; and the ten IRS service centers.

Also included in this appropriation are funds for the Statistical Reporting Activity, which is comprised of the Statistics Division in the National Office and the field operations related to the Statistics program in the Detroit Data Center and the ten IRS service centers. The Assistant Commissioner (Planning and Research) is responsible for the Statistics program.

In addition, this appropriation funds the Data Services' function, which includes the Tax Systems Division, Management Systems Division, Systems Support Division, and Systems Development Office in the National Office; the National Computer Center in Martinsburg, West Virginia; the IRS Data Center in Detroit, Michigan; computer branches in the ten IRS service centers; and staff in the seven IRS regional offices. Data Services provides comprehensive developmental and operational data processing support for the Service, including the development, implementation, and evaluation of computer systems, software, and hardware requirements and implementation of the ADP Equipment Replacement Program.

FY 1983 Program

These resources would maintain most programs for Data Processing Operations and Statistical Reporting in FY 1983 at levels estimated for FY 1982, including new ADP initiatives and the continuation of the ADP Equipment Replacement Program. Taxpayer Service resources will primarily fund the tax account assistance program and the Problem Resolution Program.

The budget proposal for the Taxpayer Service and Returns Processing Appropriation totals 29,286 average positions and $957.7 million, a decrease of 1,538 average positions and an increase of $66.5 million over the revised FY 1982 level.

1. Data Processing Operations

This activity provides funds for the accounting of tax revenue and the processing of tax returns and related documents at the IRS service centers. Resources are included for testing and installing an automated collection system, developing a computerized examination support system, continuing the ADP Equipment Replacement Program and other ADP initiatives.

The Data Processing Operations Activity has a number of major responsibilities:

- depositing tax receipts and maintaining general and subsidiary ledgers of tax revenue collected;

- processing primary tax returns, supplemental documents, federal tax deposits and associated documents;
- math verifying returns and computing tax liability;
- providing tax data for individual and business master files;
- issuing tax bills and notices of delinquency, and establishing delinquent accounts;
- issuing refunds and preventing duplicate refund payments;
- maintaining all ADP systems that directly involve tax administration;
- implementing systems modifications as required to maintain an effective system for processing tax returns and supporting documents;
- providing support through ADP technology for compliance functions;
- answering taxpayer inquiries for account information, refund status, extensions of time to file, etc.;
- comparing information documents with tax returns to provide investigative leads of potential failures to file required tax returns, and identifying instances of overreporting and underreporting of tax liability; and
- operating the Service's internal reporting system and providing statistical information for management control purposes.

The establishment of national master files of tax accounts through data processing has opened avenues not only to the improvement of voluntary compliance, but also to the goals of better taxpayer account service and equal treatment of taxpayers. The following is an illustration of benefits to the taxpayer and to the Government as result of math verification and validation of estimated payments:

MATH VERIFICATION AND VALILATION
OF ESTIMATSD PAYMENTS 1/

Fiscal Year	Under-payments (millions)	Over-payments (millions)	Offsets 2/ (millions)	Gross 3/ Yield (millions)	Net 4/ Yield (millions)
1981	$2,182.2	$1,223.9	$728.6	$4,134.7	$1,686.9
1980	$1,871.1	$1,209.1 5/	$579.7	$3,659.9	$1,241.7
1979	$1,566.4	$ 690.2	$393.7	$2,650.3	$1,269.9
1978	$1,281.6	$ 574.0	$360.5	$2,216.1	$1,068.1
1977	$1,107.8	$ 665.6	$273.6	$2,047.0	$ 715.8

1/ This table reflects the results of math verification for individual returns and validation of estimated payments on individual returns. Corporate, Employment, Exempt Organization, Employee Plans and other types of returns yield minimum amounts.

2/ Offsets are dollars of overpayments applied to existing liabilities.

3/ Gross Yield is the total of underpayments, overpayments, and offsets.

4/ Net Yield is the total of underpayments, less overpayments, plus offsets.

5/ FY 1980 was the first year taxpayers who had not claimed earned income credits received them under the math verification program. In addition, some taxpayers erroneously included certain amounts of unemployment compensation as taxable income. These two items contributed to a significant increase in math verification overpayments.

A. Maintaining tax administration at FY 1983 levels
..........62 average positions and $2.9 million

Increases of 47 average positions are required to maintain FY 1982 workload levels in FY 1983. Increases of 15 average positions are required in the Data Center to maintain FY 1981 program levels for the Taxpayer Compliance Measurement Program and management information reports.

B. ADP equipment replacement program....................
78 average positions and $11.6 million, including
$8.8 million ADP Equipment

This program consists of the Service Center Replacement System (SCRS); Microfilm Replacement System (MRS); and Master File Replacement System (MFRS). In FY 1983, Phase I of SCRS and MRS will be operational in all ten service centers. MFRS will also be fully operational. The increase of 78 average positions and $8.8 million for ADP equipment will provide equipment for the nine SCRS production systems, and MRS equipment for all ten service centers. The increases in average positions will provide operators for SCRS and MRS. These increases will also provide the real time computer capacity required in our higher volume centers.

C. Tax systems office automation........................
211 average positions and $60.8 million, including
$53.7 million ADP Equipment

A significant amount of resources are needed to accelerate the Service's plan for improving automated support for tax enforcement operations. This plan reflects the Service's continuing concern regarding its highly labor-intensive operations, not only in the service centers but also in our regional and district offices. The components of this plan are highlighted below:

1. Direct Data Entry System (DDES).............
8 average positions and $3.3 million, including
$3.1 million ADP Equipment

Direct data entry systems are the systems used to enter data from tax returns into the computerized tax processing system at IRS' ten service centers. The increase provides for purchase of replacement systems which are necessary to meet growth in the tax processing workload and are cost beneficial. These systems have exceeded their useful life and are incapable of meeting our data entry requirements. Maintenance costs have increased twenty-five percent over the last two years. The planned replacement system provides for the automation of error correction. This improvement will eliminate error register printing and manual association of the error register with the appropriate tax documents. The automation of error correction and other productivity enhancements will allow the IRS to realize significant savings in average positions.

2. Annual Readiness Check.....................
..................$0.5 million ADP Equipment

Annual reviews are conducted at each ADP site prior to tax processing. These reviews determine each site's level of preparedness for the upcoming season, review equipment conditions, hardware maintenance capabilities/readiness and any other relevant aspect of our ADP operation.

3. Optical Character Recognition of Federal Tax
Deposits (OCR for FTDs) ....
.........2 average positions and $6.3 million,
including $6.2 million ADP Equipment

OCR for FTDs has the potential of saving $23 million over the systems life (6 years). The estimated cost is $4.3 million for the lease of 10 additional systems in FY 1983. The operational benefits expected from the systems are a 90% reduction in transcription costs, greater error correcting efficiency and improved throughput. The entire area of OCR has great potential for reducing costs of document processing in several other areas. OCR workload will increase 40 percent in April, 1983 with the addition of Form 1040ES. An additional savings of $2.2 million is expected from 1040ES scanning. Form 1040A will be tested in one district in Central Region and, if successful, implemented Servicewide. To achieve these savings, it will be necessary to expend $1.9 million to replace the currently installed high-speed non-impact printers with a system capable of printing other turnaround documents and labels in highly reliable OCR mode. The replacement of the currently installed service center high-speed printers will also overcome technological deficiencies experienced since they were installed, such as poor or substandard paper quality, paper shortages, and incompatibility with folding and stuffing equipment.

4. Other productivity initiatives..............
......12 average positions and $1.0 million,
including $0.6 million ADP Equipment

We plan to pursue future productivity gains through research in such areas as electronic fund transfer, video disc for storage media, distributed network on micro-system for training purposes, and through development of customized models to enhance utilization of simulation and other predictive models for hardware/software evaluation. Support will also be provided to field agents and revenue officers through the acquisition of hand-held terminals with telephone interface capability. Test terminals ($250 thousand) will be acquired for several districts to provide field personnel with the capability of checking accounts and updating their status while in the field. To increase productivity in the functional areas, it is often necessary to develop new data processing applications. Funds are also requested to acquire software packages that will increase programmers' productivity. Acquisition of tools such as flow chart generators, data base management systems and MACRO COBOL generators will cost approximately $300 thousand.

5. Integrated Data Retrieval System (IDRS).....
...................$4.2 million ADP Equipment

By FY 1983, the terminals connected to the service center computer system will be approximately ten years old and in need of replacement with newer models. Additionally, we will have completed tests begun in prior fiscal years of a broad range of new technology devices aimed at improving human interface with computer systems. These devices include touch terminals which simplify data entry and eliminate transcription of data from the return document to an edit sheet. Also to be installed on a limited basis will be voice recognition devices and intelligent terminals capable of performing validity and consistency checks prior to entry of the data into the main system. Expenditures for all types of terminals to support tax processing are estimated to be $3.6 million. Along with replacement of our obsolete terminals, funds ($565 thousands) are required to initiate replacement of the currently installed manually tested old style modems. These modems were installed with the initial IDRS in 1971.

6. The Automated Collection System (ACS).......
.....75 average positions and $36.7 million,
including $34.2 million ADP Equipment

The system we are planning to pilot has excellent potential for increasing productivity, reducing staff and space requirements, and speeding up the collection of tax dollars from delinquent taxpayers. Much of the Service's processing and monitoring of accounts receivable and non-filer cases are computerized via the Master File and Integrated Data Retrieval System. However, there are many additional stages in the Collection function which lend themselves to further computerization and, thus, would enable our personnel to deal directly with the computer and resolve cases without unnecessary and time-consuming paperwork. Potential benefits are: reduction in office space, equipment, supplies; increase in revenue due to more efficient means of taxpayer contact; reduction in IDRS demand; reduction in Taxpayer Delinquent Accounts (TDA) inventory.

7. The Automated Computerized Examination
System (ACES)...............................
.......50 average positions and $1.5 million

This system offers many of the advantages for our Examination function that ACS will provide for our Collection function. The system for Examination will give examiners terminal access to tax return data and other information. It will schedule workload, generate reports and letters, and replace several current or planned management information systems. Benefits of about $250 million per year could result beginning in FY 1985 through the reapplication of staffing savings to additional examinations. Resources requested are for testing ACES in FY 1983.

8. Office automation and management information
systems....................................
......64 average positions and $3.3 million,
including $0.9 million ADP Equipment

Enhancement of other Office Automation and Management Information Systems support is another major component of the Service's accelerated ADP plan.

Efforts will focus on automating support to district and regional offices, implementing the Service's Decision-Enhancing Management Information System (DEMIS), and providing local data processing and word processing support where none has existed.

9. Zip Code Presort......$3.5 million Equipment

Customers who presort outgoing first class mail receive a discount from the Postal Service. These funds will be used to procure zip code presort equipment for all service centers.

10. Revenue Accounting and Control System (RACS) ....$0.5 million ADP Equipment

The Revenue Accounting and Control System includes a mini-computer complete with on-line Data Dictionary, Data Base Management System and interactive terminals. This System will provide speed and flexibility through automation of current manual operations.

D. Nonrecurring costs and savings................. ....-85 average positions

Eliminate for FY 1983 one-time funds related to prior year supplementals including printing, training, and other initial costs of implementing new automation initiatives.

E. Program reduction..........-64 average positions

It is important that all returns be processed as quickly and accurately as possible in order to maintain continued responsive and timely service to the public. Current projections indicate that approximately 144.6 million primary returns will be received and processed in FY 1983 -- 2.9 million more than currently estimated for FY 1982. An additional 822 average positions are needed to handle the growth in taxpayer population and return complexity and to process schedules, amended returns, FTD's, notices and tax bills; issue refunds promptly; detect duplicate refund payments; answer increased taxpayer inquiries for account information and refund status; and to reimburse GSA for files services at the National Archives and Records Service.

This requirement can be offset by productivity savings of about 822 average positions as follows:

(a) Microfilm Replacement System - This system will replace the current, primarily manual, microfilm research system with a highly automated system which is estimated to save 114 average positions in FY 1983.

(b) Productivity Goal - The remaining portion of the productivity savings represents an additional productivity goal (708 average positions). Every effort will be made to achieve this goal. Work accomplishment forecasts presume we will succeed. To the extent we do not, program accomplishments will fall below the forecasts in this request.

As a result of the reduction of 64 average positions, the Service will curtail some of its efforts to match information secured from other sources with tax return data.

F. Inter-appropriation transfer......................... ....-36 average positions

This represents the transfer of administrative and payroll processing support to the Management Services Activity, 34 average positions, and a transfer of resources to Executive Direction to fund Subterranean Economy studies, 2 average positions.

(Reimbursable Service)..(-193 average positions)

The budget includes net user funding of -193 average positions. We expect to reimburse Internal Security 13 average positions for Taxpayer Service and Returns Processing background investigations of newly-hired employees to determine their suitability for employment. In addition, we will provide Examination with 206 average positions of support work (input of tax return data, association of Discriminant Function listings and taxpayer returns, etc.).

Selected Workload Data
(In thousands of returns)

	FY 1981 Actual	Estimate in FY 1982 Congressional Budget	Current Year's Estimate for FY 1982	FY 1983 Estimate
1. Primary Tax Returns filed:				
a. Individual	94,032	95,706	96,404	98,842
b. Individual Declaration	9,400	8,776	9,212	9,236
c. Fiduciary	1,917	2,100	2,038	2,128
d. Partnership	1,467	1,445	1,499	1,547
e. Corporation	2,815	2,855	2,899	3,008
f. Estate	146	145	136	128
g. Gift	199	241	214	130
h. Employment	26,095	26,639	26,528	26,763
i. Exempt Organizations	409	483	465	476
j. Employee Plans	790	792	845	872
k. Alcohol, Tobacco and Firearms Returns	522	559	548	549
l. Excise	971	1,044	888	893
Total Primary Returns	138,763	140,786	141,678	144,572
2. Selected Supplemental Documents	6,817	6,911	6,870 1/	7,326 1/
3. Individual Refunds Scheduled	71,314	74,551	73,629	79,181

1/ Workload projections made by the Statistics Division in Document 6292 (Rev. 9-81). However, due to reduced funding levels, we expect to process 3.8 million of these documents in FY 1982 and 3.3 million in FY 1983.

2. Statistical Reporting

The Statistics Division, under the direction of the Assistant Commissioner (Planning and Research), is responsible for publishing Statistics of Income Reports on the operation of income tax laws as required by the Internal Revenue Code; and for providing basic information for tax studies and legislation for the Congress and its committees, for administrative use by the Secretary of the Treasury and the Commissioner of Internal Revenue, and for the Federal benchmark statistical programs on income, wealth and finance. It also supports the operational components of the Revenue Service through statistical analyses, workload projections, and the application of scientific sampling procedures.

FY 1983 Program

The proposed budget for Statistical Reporting totals 577 average positions and $16.4 million, a decrease of 13 average positions. This reduction will be partially countered by expected economies resulting from relocation to the Service Centers of processing for the Partnership Statistics of Income (SOI) Study. Adjustments will also be made to the Sole Proprietorship SOI Study and to the handling of Schedule F (FARMS) Data in both studies.

3. Taxpayer Service

The mission of Taxpayer Service is to aid voluntary compliance with Federal tax laws on the part of all taxpayers by informing them of their responsibilities and by providing service which will assist them in meeting their obligations. Taxpayer Service provides technical tax administration assistance to foreign countries and state and local governments in accordance with the provision of the Foreign Assistance and Inter-Governmental Personnel Acts.

This activity also funds the Disclosure Operations function which is responsible for protecting the confidentiality of tax returns and return information and the taxpayers' rights to privacy, while administering the disclosure provisions of the Internal Revenue Code, the Freedom of Information Act, and the Privacy Act of 1974.

FY 1983 Program

Resources requested for FY 1983 total 3,127 average positions and $196.0 million, a decrease of 1,691 average positions and a decrease of $34.5 million. Most of the requested resources will be devoted to an account assistance program supplemented by a limited self-help group return preparation assistance program. Public Affairs, TAAS, certain Taxpayer Education programs and a limited number of related activities will be continued at current levels.

Included in the total resource request for this activity are 50 average positions to fund tax forms work performed in the A/C Technical area.

Disclosure

Major disclosure workload activities will remain at the same volume as in FY 1982. On-site safeguard reviews of agencies receiving tax information will be limited to those having significant safeguard problems. Formal evaluations of internal compliance with disclosure statutes will be conducted as needed.

Taxpayer Service Resources and Program Performance

The following table shows the relationship of the levels of operation in FY 1981, FY 1982, and FY 1983 for the Taxpayer Service Activity:

	1981 Actual	1982 Estimate	1983 Estimate
Average Positions			
Full-Time Permanent			
Taxpayer Service Specialists	645	703	364
Taxpayer Service Representatives	932	1,161	1,055
Other	1,542	1,453	1,302
All Other			
WAE/Part-Time/ Temporary	2,051	1,306	211
Details			
Revenue Officers	19	22	22
Tax Auditors	47	74	74
Revenue Agents	89	99	99
Total Average Positions	5,325	4,818	3,127
Selected Workload Data			
Taxpayers Assisted (in millions)	44.5	41.4	17.9
Tele-Tax Service (in millions)	--	--	2.9
Problem Resolution (in millions)	0.3	0.3	0.3
Taxpayer Education (in thousands)	5,402	5,417	5,360
VITA/TCE Volunteers	47	65	65
Practitioner Institute Participants	71	62	--
Small Business Program Participants	56	40	40
Individual Tax Education Program Participants	38	50	55
School Program Student Publication Orders	5,190	5,200	5,200

Taxpayer Service and Returns Processing, Internal Revenue Service

	1981 Actual	1982 Estimate	1983 Estimate
Freedom of Information Act Requests	11,926	11,900	11,900
IRC 6103(i) (1) and (2) Disclosures	4,405	4,400	4,400
Testimony Requests	996	1,000	1,000
TAAS Assignments Overseas	19	36	32
International Visitors			
Programs Developed	120	100	100
Visitors Accommodated	532	450	450

INTERNAL REVENUE SERVICE

FEDERAL FUNDS

General and special funds:

TAXPAYER SERVICE AND RETURNS PROCESSING

For necessary expenses of the Internal Revenue Service for processing tax returns, revenue accounting, providing assistance to taxpayers, statistical reporting, and hire of passenger motor vehicles (31 U.S.C. 638a(a)); $957,679,000, of which not to exceed $75,300,000 shall remain available until expended for systems modernization initiatives. (Title 26, United States Code.)

Taxpayer Service and Returns Processing, Internal Revenue Service

SELECTED WORKLOAD DATA
(in thousands)

	1981 Actual	1982 Program in 1982 Budget	1982 Program in 1983 Budget	1983 Estimate	Percent Change From 1982
1. Primary tax returns filed...........	138,763	140,786	141,678	144,572	+ 2.0
2. Supplemental documents..............	6,817	6,911	6,870 1/	7,326 1/	+ 6.6
3. Individual income tax returns:					
a. Individual income tax returns to be filed......................	94,032	95,706	96,404	98,842	+ 2.5
b. Refunds scheduled...............	71,314	74,551	73,629	79,181	+ 7.5
4. Taxpayers assisted (contacts).......	45,100	39,505	41,760	21,100	-49.5

1/ Workload projections made by the Statistics Division in Document 6292 (Rev. 9-81). However, due to reduced funding levels, we expect to process 3.8 million of these documents in FY 1982 and 3.3 million in FY 1983.

Taxpayer Service and Returns Processing, Internal Revenue Service

SELECTED REVENUE DATA
(in millions of dollars)

	1981 Actual	1982 Program in 1982 Budget	1982 Program in 1983 Budget	1983 Estimate	Percent Increase Over 1982
Gross Revenue	606,799	653,407	634,869	670,603	5.6
Selected Revenue:					
1. Additional assessments from mathematical verification, validation of estimated tax payments	2,182	2,007	2,291	2,492	8.8

March 8, 1982

Taxpayer Service and Returns Processing, Internal Revenue Service

SUMMARY OF EMPLOYMENT (NUMBER AVERAGE POSITIONS)

Principal Categories	Actual	Estimated		Increases or Decreases (-) for 1983		
	1981	1982	1983	Total	Program Increase	Other
1. Data Processing Operations						
Full-time permanent	16,175	17,078	17,308	230	351	-121
All other	10,624	8,338	8,274	-64	---	-64
Total	26,799	25,416	25,582	166	351	-185
2. Statistical Reporting						
Full-time permanent	628	523	510	-13	---	-13
All other	54	67	67	---	---	---
Total	682	590	577	-13	---	-13
3. Taxpayer Service						
Revenue Agents	89	99	99	---	---	---
Tax Auditors	47	74	74	---	---	---
Revenue Officers	19	22	22	---	---	---
Taxpayer Service Representatives	932	1,161	1,055	-106	---	-106
Taxpayer Service Specialists	645	703	364	-339	---	-339
Other full-time permanent	1,542	1,453	1,302	-151	---	-151
Total full-time permanent	3,274	3,512	2,916	-596	---	-596
All other	2,051	1,306	211	-1,095	---	-1,095
Total	5,325	4,818	3,127	-1,691	---	-1,691
Appropriation Total						
Full-time permanent	20,077	21,113	20,734	-379	351	-730
All other	12,729	9,711	8,552	-1,159	---	-1,159
Total	32,806	30,824	29,286	-1,538	351	-1,889

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OVERSIGHT OF GOVERNMENT MANAGEMENT
WASHINGTON, D.C. 20510

January 8, 1982

Mr. William E. Dosedlo
District Director
Internal Revenue Service
68 Sewall Street
Augusta, Maine 04330

Dear Mr. Dosedlo:

It is my understanding that starting in the 1982 filing period, the Internal Revenue Service will not directly participate in the preparation of tax returns. Under this new policy, the IRS will provide some assistance through self-help methods, although the emphasis will be placed on the toll-free telephone service.

I am interested in the impact this change in IRS policy will have on the assistance provided to Maine taxpayers.

In conjunction with this Subcommittee's oversight responsibilities, I request that you furnish the following:

1) the number of Taxpayer Service employees, permanent and seasonal, at the Maine district office and at the posts-of-duty for the filing periods 1977 through 1982;

2) the number of taxpayers that have been and are projected to be serviced by the district office and by each of the posts-of-duty for the filing periods 1977 through 1982. If possible, specify how many taxpayers used or are expected to use the telephone service, walk-in service, and correspondence;

Mr. William E. Dosedlo
District Director
Internal Revenue Service
January 8, 1982
Page 2

3) the location of any Taxpayer Service walk-in office(s) in the state which were or are slated to be closed for the filing periods 1977 through 1982;

4) statistics on the timeliness and accuracy of assistance provided by the Maine district office and the posts-of-duty for the filing periods 1977 through 1981. Please specify the method of monitoring these factors.

Finally, what impact do you feel this change in the IRS policy will have on particular groups in your district, for example, the elderly, low-income, and rural taxpayers?

I would appreciate your providing the Subcommittee with this information as soon as possible. Please indicate in your response the name of the appropriate individual in the district office who will be responsible for this request and may provide additional information, if needed. If you have any questions, please contact Jeff Minsky or Mary Berry Gerwin of my staff at (202) 224-5538.

Responses should be directed to the Subcommittee on Oversight of Government Management, Committee on Governmental Affairs, 3306 Dirksen Senate Office Building, Washington, D.C., 20510.

Thank you for your cooperation.

Sincerely,

Bill Cohen

William S. Cohen
Chairman

WSC:jam

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WASHINGTON, D.C. 20510

January 8, 1982

Mr. John L. Carlson
District Director
Internal Revenue Service
310 K Street
Anchorage, Alaska 99501

Dear Mr. Carlson:

It is my understanding that starting in the 1982 filing period, the Internal Revenue Service will not directly participate in the preparation of tax returns. Under this new policy, the IRS will provide some assistance through self-help methods, although the emphasis will be placed on the toll-free telephone service.

I am interested in the impact this change in IRS policy will have on the assistance provided to Alaskan taxpayers.

In conjunction with this Subcommittee's oversight responsibilities, I request that you furnish the following:

1) the number of Taxpayer Service employees, permanent and seasonal, at the Alaska district office and at the posts-of-duty for the filing periods 1977 through 1982;

2) the number of taxpayers that have been and are projected to be serviced by the district office and by each of the posts-of-duty for the filing periods 1977 through 1982. If possible, specify how many taxpayers used or are expected to use the telephone service, walk-in service, and correspondence;

3) the location of any Taxpayer Service walk-in office(s) in the state which were or are slated to be closed for the filing periods 1977 through 1982;

4) statistics on the timeliness and accuracy of assistance provided by the Alaska district office and the posts-of-duty for the filing periods 1977 through 1981. Please specify the method of monitoring these factors.

Finally, what impact do you feel this change in the IRS policy will have on particular groups in your district, for example, the elderly, low-income, and rural taxpayers?

I would appreciate your providing the Subcommittee with this information as soon as possible. Please indicate in your response the name of the appropriate individual in the district office who will be responsible for this request and may provide additional information, if needed. If you have any questions, please contact Jeff Minsky or Mary Berry Gerwin of my staff at (202) 224-5538.

Responses should be directed to the Subcommittee on Oversight of Government Management, Committee on Governmental Affairs, 3306 Dirksen Senate Office Building, Washington, D.C., 20510.

Thank you for your cooperation.

Sincerely,

Bill Cohen

William S. Cohen
Chairman

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WASHINGTON, D.C. 20510

.January 8, 1982

Mr. Frank S. Miceli
District Director
Internal Revenue Service
80 Daniels Street
Portsmouth, New Hampshire 03801

Dear Mr. Miceli:

It is my understanding that starting in the 1982 filing period, the Internal Revenue Service will not directly participate in the preparation of tax returns. Under this new policy, the IRS will provide some assistance through self-help methods, although the emphasis will be placed on the toll-free telephone service.

I am interested in the impact this change in IRS policy will have on the assistance provided to New Hampshire taxpayers.

In conjunction with this Subcommittee's oversight responsibilities, I request that you furnish the following:

1) the number of Taxpayer Service employees, permanent and seasonal, at the New Hampshire district office and at the posts-of-duty for the filing periods 1977 through 1982;

2) the number of taxpayers that have been and are projected to be serviced by the district office and by each of the posts-of-duty for the filing periods 1977 through 1982. If possible, specify how many taxpayers used or are expected to use the telephone service, walk-in service, and correspondence;

3) the location of any Taxpayer Service walk-in office(s) in the state which were or are slated to be closed for the filing periods 1977 through 1982;

4) statistics on the timeliness and accuracy of assistance provided by the New Hampshire district office and the posts-of-duty for the filing periods 1977 through 1981. Please specify the method of monitoring these factors.

Finally, what impact do you feel this change in the IRS policy will have on particular groups in your district, for example, the elderly, low-income, and rural taxpayers?

I would appreciate your providing the Subcommittee with this information as soon as possible. Please indicate in your response the name of the appropriate individual in the district office who will be responsible for this request and may provide additional information, if needed. If you have any questions, please contact Jeff Minsky or Mary Berry Gerwin of my staff at (202) 224-5538.

Responses should be directed to the Subcommittee on Oversight of Government Management, Committee on Governmental Affairs, 3306 Dirksen Senate Office Building, Washington, D.C., 20510.

Thank you for your cooperation.

Sincerely,

Bill Cohen

William S. Cohen
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WASHINGTON, D.C. 20510

January 8, 1982

Mr. Charles A. Parks
District Director
Internal Revenue Service
2483 McNamara Building
Detroit, Michigan 48226

Dear Mr. Parks:

It is my understanding that starting in the 1982 filing period, the Internal Revenue Service will not directly participate in the preparation of tax returns. Under this new policy, the IRS will provide some assistance through self-help methods, although the emphasis will be placed on the toll-free telephone service.

I am interested in the impact this change in IRS policy will have on the assistance provided to Michigan taxpayers.

In conjunction with this Subcommittee's oversight responsibilities, I request that you furnish the following:

1) the number of Taxpayer Service employees, permanent and seasonal, at the Detroit district office and at the posts-of-duty for the filing periods 1977 through 1982;

2) the number of taxpayers that have been and are projected to be serviced by the district office and by each of the posts-of-duty for the filing periods 1977 through 1982. If possible, specify how many taxpayers used or are expected to use the telephone service, walk-in service, and correspondence;

Mr. Charles A. Parks
District Director
Internal Revenue Service
January 8, 1982
Page 2

3) the location of any Taxpayer Service walk-in office(s) in the state which were or are slated to be closed for the filing periods 1977 through 1982;

4) statistics on the timeliness and accuracy of assistance provided by the Detroit district office and the posts-of-duty for the filing periods 1977 through 1981. Please specify the method of monitoring these factors.

Finally, what impact do you feel this change in the IRS policy will have on particular groups in your district, for example, the elderly, low-income, and rural taxpayers?

I would appreciate your providing the Subcommittee with this information as soon as possible. Please indicate in your response the name of the appropriate individual in the district office who will be responsible for this request and may provide additional information, if needed. If you have any questions, please contact Jeff Minsky or Mary Berry Gerwin of my staff at (202) 224-5538.

Responses should be directed to the Subcommittee on Oversight of Government Management, Committee on Governmental Affairs, 3306 Dirksen Senate Office Building, Washington, D.C., 20510.

Thank you for your cooperation.

Sincerely,

Bill Cohen

William S. Cohen
Chairman

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WASHINGTON, D.C. 20510

January 8, 1982

Mr. William F. Barlow
District Director
Internal Revenue Service
700 West Capitol
Little Rock, Arkansas 72201

Dear Mr. Barlow:

It is my understanding that starting in the 1982 filing period, the Internal Revenue Service will not directly participate in the preparation of tax returns. Under this new policy, the IRS will provide some assistance through self-help methods, although the emphasis will be placed on the toll-free telephone service.

I am interested in the impact this change in IRS policy will have on the assistance provided to Arkansas taxpayers.

In conjunction with this Subcommittee's oversight responsibilities, I request that you furnish the following:

1) the number of Taxpayer Service employees, permanent and seasonal, at the Arkansas district office and at the posts-of-duty for the filing periods 1977 through 1982;

2) the number of taxpayers that have been and are projected to be serviced by the district office and by each of the posts-of-duty for the filing periods 1977 through 1982. If possible, specify how many taxpayers used or are expected to use the telephone service, walk-in service, and correspondence;

3) the location of any Taxpayer Service walk-in office(s) in the state which were or are slated to be closed for the filing periods 1977 through 1982;

4) statistics on the timeliness and accuracy of assistance provided by the Arkansas district office and the posts-of-duty for the filing periods 1977 through 1981. Please specify the method of monitoring these factors.

Finally, what impact do you feel this change in the IRS policy will have on particular groups in your district, for example, the elderly, low-income, and rural taxpayers?

I would appreciate your providing the Subcommittee with this information as soon as possible. Please indicate in your response the name of the appropriate individual in the district office who will be responsible for this request and may provide additional information, if needed. If you have any questions, please contact Jeff Minsky or Mary Berry Gerwin of my staff at (202) 224-5538.

Responses should be directed to the Subcommittee on Oversight of Government Management, Committee on Governmental Affairs, 3306 Dirksen Senate Office Building, Washington, D.C., 20510.

Thank you for your cooperation.

Sincerely,

Bill Cohen

William S. Cohen
Chairman

WSC:jam

COMMISSIONER OF INTERNAL REVENUE
Washington, DC 20224

FEB 2 1982

The Honorable William S. Cohen
United States Senate
Washington, DC 20510

Dear Senator Cohen:

This is in response to your letters of January 8, 1982 to the Directors of the IRS Districts of Augusta, Little Rock, Anchorage, Portsmouth, and Detroit concerning taxpayer assistance programs for FY 1982. A summary of the specific information you requested from each of those Directors is attached. In instances where data is indicated as not available, those statistics were not retained by the districts beyond that year. Statistics on the timeliness of assistance provided by the districts are not available at this time; this data is being compiled and will be available shortly.

As you noted in your letter, the IRS is discontinuing direct preparation of returns for taxpayers in FY 1982, as well as the review of third-party prepared returns. However, in the case of direct preparation an exception will be made for handicapped or other taxpayers who have demonstrated an inability to use the self-help concept. IRS will continue to provide toll-free telephone and walk-in assistance, including an expanded self-help returns preparation program. We will also continue our support of the Tax Counseling for the Elderly and Volunteer Income Tax Assistance (VITA) programs, through which IRS-trained volunteers assist in the preparation of tax returns for low income, elderly and other taxpayers having special needs.

I can assure you that the changes that have been made were designed to enable us to reach the largest number of taxpayers in the most efficient ways possible, without sacrificing our willingness to meet special assistance needs where these exist.

Thank you for your concern and interest in the Taxpayer Service program. Please feel free to contact me if you need further information.

With kind regards,

Sincerely,

Charles W. Wheeler
Assistant to the Commissioner

Enclosure

Department of the Treasury Internal Revenue Service

The number of Taxpayer Service employees, permanent and seasonal, at the District Office and at Posts of Duty for the filing periods 1977 through 1982

	FY 77		FY 78		FY 79		FY 80		FY 81		FY 82	
	Perm.	Seasonal	Perm.	Seasonal	Perm.	Seasonal	Perm.	Seasonal	Perm.	Seasonal	Perm.	Seasonal
Augusta Headquarters	6	16	9	19	8	14	9	17	9	13	6	11
Auburn	1	2	1	3	1	2	1	1	1	1	1	0
Bangor	2	2	1	2	1	2	1	2	1	2	0	2
Biddeford	1	1	0	2	0	2	0	2	0	1	0	1
Calais	0	1	0	1	0	1	0	1	0	0	0	0
Portland	2	2	1	5	1	6	1	5	1	5	1	2
Presque Isle	1	0	1	1	1	1	1	1	1	1	1	0
Rockland	0	0	0	1	0	1	0	1	0	1	0	1
Waterford	1	1	0	2	0	1	0	1	0	1	0	1
Anchorage Headquarters	8	9	8	9	9	10	9	10	8	7	8	3
Fairbanks	0	2	0	2	0	2	0	1	0	1	0	1
Juneau	0	1	0	1	0	1	0	1*	0	1*	0	1*

* covered by Revenue Officer

	FY 77		FY 78		FY 79		FY 80		FY 81		FY 82	
Portsmouth Headquarters	Not Available		Not Available		6	15	8	11	8	9	7	9
Manchester	Not Available		Not Available		2	2	1	3	1	4	1	2
Nashua	Not Available		Not Available		1	1	1	1	1	1	1	1
Concord	Not Available		Not Available		1	1	1	1	1	1	1	1
Keene	Not Available		[illegible]t Available		1	0	0	[illegible]	0	1	0	1

The number of Taxpayer Service employees, permanent and seasonal, at the Di[illegible]

and at Posts of Duty for the filing periods 1977 through 1982

	FY 77		FY 78		FY 79		FY 80		FY 81		FY 82	
	Perm.	Seasonal	Perm.	Seasonal	Perm.	Seasonal	Perm.	Seasonal	Perm.	Seasonal	Perm.	Seasonal
Laconia	Not Available		Not Available		0	1	0	1	1	0	1	0
Claremont	Not Available		Not Available		1	0	1	0	1	0	0	0
Berlin	Always covered by Revenue Agent											
Little Rock												
Headquarters	Not Available		Not Available		Not Available		15	24	14	22	17	23
Fayetteville	0	1	0	2	0	2	0	2	0	1		
Fort Smith	0	1	0	1	0	1	0	1	0	1	0	1
Jonesboro	2	0	2	0	2	0	1	1	2	0	1	0
Pine Bluff	0	2	0	2	0	2	0	1	0	0	0	1
Texarkana	Handled primarily by Dallas District											
Batesville	Assistance provided by Revenue Officer											
Blytheville	0	1	0	1	0	1	0	1	0	1	Closed	
El Dorado	0	1	0	1	0	1	Revenue Agent		Revenue Agent		Revenue Agent	
Camden	Handled by Tax Auditor and Revenue Officer											
Forrest City	0	1	0	1	0	1	Revenue Agent		Revenue Agent		Closed	
Harrison	0	0	0	1	0	1	Closed		Closed		Closed	
Helena	--	--	0	1	0	1	Closed		Closed		Closed	
Hot Springs	--	--	0	2	0	2	0	1	0	1	0	1
Lake Village	0	1	0	1	0	1	Closed		Closed		Closed	

The number of Taxpayer Service employees, permanent and seasonal, at the District Office and at Posts of Duty for the filing periods 1977 through 1982

	FY 77		FY 78		FY 79		FY 80		FY 81		FY 82	
	Perm.	Seasonal	Perm.	Seasonal	Perm.	Seasonal	Perm.	Seasonal	Perm.	Seasonal	Perm.	Seasonal
West Memphis	0	1	0	1	0	1	0	1	Revenue Officer		Revenue Officer	
Mountain Home	0	0	0	1	0	1	Revenue Officer		Closed		Closed	
Detroit Headquarters	9	2	9	2	9	8	9	12	7	5	9	4
Bay City	0	1	0	1	0	1	0	1	0	1	0	0
Niles	Not Available		Not Available		Not Available		Not Available		0	1	0	0
Grand Rapids	4	3	4	3	4	3	2	3	4	3	4	3
Muskegon	1	0	1	1	1	1	1	2	1	2	1	1
Lansing	2	1	2	1	2	2	2	3	2	3	2	3
Battle Creek	0	2	0	2	0	2	0	2	0	2	0	2
Kalamazoo	1	2	1	2	1	2	1	2	1	2	1	2
Benton Harbor	1	0	1	0	1	0	1	2	1	0	1	0
Pontiac	1	0	1	0	1	0	1	1	1	1	1	2
Traverse City	1	0	1	0	1	1	1	1	1	1	1	1
Sault Ste. Marie	Serviced by Detail-In											
Ironwood	Serviced by Detail-In											
Flint	2	1	2	2	2	2	2	2	2	2	2	2
Adrian	Serviced by Personnel from Headquarters											
Cadillac	Detail-In		Detail-In		Detail-In		Detail-In		1	0	0	0

The number of Taxpayer Service employees, permanent and seasonal, at the District Office and at Posts of Duty for the filing periods 1977 through 1982

	FY 77		FY 78		FY 79		FY 80		FY 81		FY 82	
	Perm.	Seasonal	Perm.	Seasonal	Perm.	Seasonal	Perm.	Seasonal	Perm.	Seasonal	Perm.	Seasonal
Southfield	4	2	4	2	4	2	4	2	2	3	Closed	
Monore	Staffed from Headquarters as Needed										Closed	
Mt. Clemins	2	1	2	1	2	1	2	1	2	2	2	2
Port Huron	1	0	1	0	1	0	1	0	1	0	1	0
Escanaba	1	0	1	0	1	0	1	0	Detail-In Exam		0	0
Houghton	Detail-In Exam or Collection											
Ann Arbor	2	0	2	0	1	1	1	2	1	2	1	2
Jackson	1	0	1	0	1	0	1	0	1	0	1	0
Dearborn	2	0	2	0	2	0	3	0	3	1	2	1
Marquette	1	0	1	0	1	0	1	0	1	0	1	0
Mt. Pleasant	1	0	1	0	1	0	1	0	Detail-In Exam		0	0
Petoskey	Detail-In								1	0	0	0
Saginow	3	2	4	2	4	2	4	2	4	2	3	3
Alpena	1	0	1	0	1	0	1	0	1	0	1	0
Southfield Mall	Detail-In Exam		Closed		Closed		Closed		Closed		Closed	
Oakland Mall	Detail-In Exam		Closed		Closed		Closed		Closed		Closed	
Lavonia Mall	Detail-In		Closed		Closed		Closed		Closed		Closed	
8 Neighborhood City Halls Detroit	Detail-In Exam		Closed		Closed		Closed		Closed		Closed	

Page 1 #2

The number of Taxpayers Serviced: Walk-in, Telephone, Correspondence

	1977			1978			1979			1980			1981			1982		
	W/I	Tele	Corr	W/I	Tele	Corr	W/I	Tele	Corr	W/I	Tele	Corr	W/I	Tele	Corr	W/I	Tele	Corr
Augusta	Not avail.	93208	364	6160	77532	165	4587	77179	188	4903	80965	281	4847	86708	547	4847	86684	693
Calais	Not Avail.	—	—	908	—	—	572	—	—	440	—	—	342	—	—	342	—	—
Rockland	Not Avail.	—	—	2329	—	—	2072	—	—	2147	—	—	1695	—	—	1695	—	—
Bangor	Not Avail.	—	—	5686	—	—	6551	—	—	4787	—	—	5443	—	—	6243	—	—
Presque Isle	Not Avail.	—	—	4068	—	—	4899	—	—	3816	—	—	3781	—	—	3781	—	—
Waterville	Not Avail.	—	—	4432	—	—	4451	—	—	3717	—	—	4152	—	—	4152	—	—
Portland	Not Avail.	—	—	9119	—	—	9621	—	—	9732	—	—	11797	—	—	12705	—	—
Biddeford	Not Avail.	—	—	4436	—	—	3429	—	—	3671	—	—	2788	—	—	2788	—	—
Auburn	Not Avail.	—	—	6268	—	—	5224	—	—	6322	—	—	5901	—	—	5901	—	—
Machias	Not Avail.	—	—	255	—	—	159	—	—	140	—	—	111	—	—	111	—	—
Ellsworth	Not Avail.	—	—	74	—	—	41	—	—	278	—	—	36	—	—	Closed		
Houlton	Not Avail.	—	—	184	—	—	291	—	—	276	—	—	250	—	—	Closed		
Maine Mall	Not Avail.	—	—	4396	—	—	6242	—	—	6051	—	—	7743	—	—	Closed		
Sanford	Not Avail.	—	—	157	—	—	142	—	—	123	—	—	142	—	—	Closed		
Rumford	Not Avail.	—	—	70	—	—	55	—	—	72	—	—	86	—	—	Closed		
Eastport	Not Avail.	—	—	43	—	—	34	—	—	11	—	—	12	—	—	Closed		
Fortkent	Not Avail.	—	—	42	—	—	46	—	—	4	—	—	Closed			Closed		
Millinocket	Not Avail.	—	—	39	—	—	30	—	—	48	—	—	27	—	—	Closed		
Ste Pamphile	Not Avail.	—	—	72	-	—	36	—	—	106	—		107	—	—	107		
Bath	Not Avail.	—	—	631	—	—	859	—	—	939	—	—	1376		—	[illegible]		

	1977			1978			1979			1980			1981			1982		
	W/I	Tele	Corr	W/I	Tele	Corr	W/I	Tele	Corr	W/I	Tele	Corr	W/I	Tele	Corr	W/I	Tele	Corr
Bangor Mall	Not Avail.	—	—	Not Avail.			Not Avail.			1122	—	—	2202	—	—	Closed		
Auburn Mall	Not Avail.	—	—	Not Avail.			Not Avail.			Not Avail.			265	—	—	Closed		
Daquaam	Not Avail.	—	—	15	—	—	Closed			Closed			Closed			Closed		
Site Auralie	Not Avail.	—	—	29	—	—	Closed			Closed			Closed			Closed		
Coburs Gore	Not Avail.	—	—	28	—	—	Closed			Closed			Closed			Closed		
Anchorage	33822	71532	201	27791	51967	160	18547	53956	115	7791	52888	181	8040	[illegible]	62	9940	57190	118
Fairbanks	Not Available			Not Available			Not Available			6549	0	19	5459	0	0	5959	0	78
Juneau	Not Available			Not Available			Not Available			1470	—	—	1613	—	—	1666	—	--
Portsmouth	Not Avail.	—	—	Not Avail.			6314	67507	169	6319	61185	256	9993	62982	170	8594	61577	172
Manchester	Not Avail.	—	—	Not Avail.			8987	—	—	10467	—	—	15230	—	—	12501	—	—
Nashua	Not Avail.	—	—	Not Avail.			9127	—	—	7616	—	—	8519	—	—	7813	—	—
Concord	Not Avail.	—	—	Not Avail.			3034	—	—	2830	—	—	3944	—	—	3125	—	—
Keene	Not Avail.	—	—	Not Avail.			4636	—	—	4628	—	—	4500	—	—	3515	—	—
Laconia	Not Avail.	—	—	Not Avail.			3250	—	—	3066	—	—	3238	—	—	2734	—	—
Claremont	Not Avail.	—	—	Not Avail.			74	—	—	96	—	—	117	—	—	0	—	—
Berlin	Not Avail.	—	—	Not Avail.			595	—	—	551	—	—	770	—	—	781	—	—
Little Rock	Not Avail.	—	—	12592	150057	274	11884	161291	392	9243	182247	217	13984	201072	423	14229	208190	—
Fayetteville	Not Avail.	—	—	3420	—	—	2819	—	—	2706	—	—	3417	—	—	3210	—	—
Fort Smith	Not Avail.	—	—	6751	—	—	3306	—	—	4656	—	—	6321	—	—	6215	—	—
Jonesboro	Not Avail.	—	—	4518	—	—	4830	—	—	3018	—	—	2820	—	—	2710	—	—
Pine Bluff	Not Avail.	—	—	4064	- —	—	2618	—	—	2541	—		1405	—	—	5	—	—

	1977			1978			1979			1980			1981			1982		
	W/I	Tele	Corr	W/I	Tele	Corr	W/I	Tele	Corr	W/I	Tele	Corr	W/I	Tele	Corr	W/I	Tele	Corr
Texarkana	Not Avail.	——	——	1080	——	——	160	——	——	0	——	——	4	——	——	0	——	——
Batesville	Not Avail.	——	——	373	——	——	400	——	——	199	——	——	223	——	——	216	——	——
Blytheville	Not Avail.	——	——	1205	——	——	667	——	——	1130	——	——	807	——	——	0	——	——
El Dorado	Not Avail.	——	——	919	——	——	538	——	——	930	——	——	546	——	——	524	——	——
Camden	Not Avail.	——	——	236	——	——	118	——	——	Closed			Closed			Closed		
Forrest City	Not Avail.	——	——	1083	——	——	521	——	——	497	——	——	539	——	——	Closed		
Harrison	Not Avail.	——	——	210	——	——	91	——	——	Closed			Closed			Closed		
Helena	Not Avail.	——	——	391	——	——	90	——	——	8	——	——	Closed		Closed	Closed		
Hot Springs	Not Avail.	——	——	1547	——	——	1454	——	——	1218	——	——	1475	——	——	1417	——	——
Lake Village	Not Avail.	——	——	163	——	——	66	——	——	Closed			Closed			Closed		
Russelville	Not Avail.	——	——	662	——	——	178	——	——	53	——	——	Closed			Closed		
West Memphis	Not Avail.	——	——	828	——	——	467	——	——	450	——	——	697	——	——	678	——	——
Mountain Home	Not Avail.	——	——	177	——	——	46	——	——	84	——	——	Closed			Closed		

	1977			1978			1979			1980			1981			1982		
	W/I	Tele	Corr	W/I	Tele	Corr	W/I	Tele	Corr	W/I	Tele	Corr	W/I	Tele	Corr	W/I	Tele	Corr
Detroit																		
Headquarters	Not Avail.	655383	777	22460	673697	1140	20382	684793	718	19184	752529	639	21351	793561	638	20753	807244	568
Bay City	Not Available			Not Available			1028	——	—	1203	——	—	937	——	—	0	0	0
Niles	Not Available			Not Available			Not Available			Not Available			159	——	—	0	0	0
Grand Rapids	Not Available			13404	——	—	8606	——	—	9981	——	—	12706	——	—	12370	——	—
Muskegon	Not Available			6714	——	—	5354	——	—	6767	——	—	7749	——	—	7532	——	—
Lansing	Not Available			Not Available			9695	——	—	12492	——	—	18766	——	—	18240	——	—
Battle Creek	Not Available			5125	——	—	3589	——	—	4419	——	—	4983	——	—	4843	——	—
Kalamazoo	Not Available			10259	——	—	7929	——	—	10333	——	—	11311	——	—	10986	——	—
Benton Harbor	Not Available			5534	——	—	4080	——	—	3441	——	—	3259	——	—	2989	——	—
Pontiac	Not Available			Not Available			6381	——	—	6398	——	—	6037	——	—	7245	——	—
Traverse City	4101	——	—	5100	——	—	4190	——	—	5347	——	—	4934	——	—	4696	——	—
Saulte St. Mans	822	——	—	800	——	—	634	——	—	524	——	—	192	——	—	0	0	0
Ironwood	681	——	—	——	——	—	239	——	—	261	——	—	148	——	—	0	0	0
Flint	17633	——	—	13450	——	—	10392	——	—	10463	——	—	13234	——	—	12863	——	—
Adrian	Not Available			292	——	—	186	——	—	107	——	—	95	——	—	0	——	—
Cadillac	1400	——	—	1210	——	—	675	——	—	489	——	—	424	——	—	0	——	—
Southfield	Not Available			7933	——	—	8945	——	—	12662	——	—	14841	——	—	0	——	—
Monroe	Not Available			401	——	—	211	——	—	206	——	—	193	——	—	0	——	—

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	1977			1978			1979			1980			1981			1982		
	W/I	Tele	Corr	W/I	Tele	Corr	W/I	Tele	Corr	W/I	Tele	Corr	W/I	Tele	Corr	W/I	Tele	Corr
Mt. Clemens	Not Available			Not Available			9519	—	—	11140	—	—	13605	—	—	13259	—	—
Port Huron	Not Available			Not Available			2189	—	—	4031	—	—	2549	—	—	2477	—	—
Escanaba	1890	—	—	1375	—	—	1358	—	—	1665	—	—	1477	—	—	0	—	—
Houghton	2355	—	—	1400	—	—	788	—	—	512	—	—	619	—	—	0	—	—
Ann Arbor	Not Available			Not Available			12406	—	—	15589	—	—	15394	—	—	14963	—	—
Jackson	Not Available			7517	—	—	6827	—	—	3340	—	—	7900	—	—	6326	—	—
Dearborn	Not Available			10717	—	—	10316	—	—	10212	—	—	11701	—	—	11374	—	—
Marquette	2512	—	—	2520	—	—	1836	—	—	2474	—	—	2885	—	—	2805	—	—
Mt. Pleasant	3238	—	—	3500	—	—	2319	—	—	3334	—	—	2411	—	—	0	—	—
Petoskey	1658	—	—	1595	—	—	614	—	—	643	—	—	306	—	—	0	—	—
Saginaw	9867	—	—	7710	—	—	6841	—	—	5872	—	—	7042	—	—	6845	—	—
Alpena	2312	—	—	1720	—	—	1801	—	—	1568	—	—	1327	—	—	1290	—	—

Page 1 Number 3 Offices Closed for Taxpayer Service

	1977	1978	1979	1980	1981	1982
Augusta District						
Auburn Mall						X
Bangor Mall						X
Coburn Gore			X	X	X	X
Daquaam			X	X	X	X
East Port						X
Ellsworth						X
Fort Kent						X
Houlton					X	X
Maine Mall						X
Millinocket						X
Rumford						X
Sanford						X
Ste. Aurelie			X	X	X	X
Anchorage District	None					

Page 2 Number 3 Offices Closed for Taxpayer Service

	1977	1978	1979	1980	1981	1982
Portsmouth District						
Claremont						X
Berlin						X (after filing period)
Little Rock District						
Camden				X	X	X
Forest City						X
Harrison				X	X	X
Helena				X	X	X
Lake Village				X	X	X
Russeville					X	X
Mountain Home					X	X

Page 3 Number 3 Offices Closed for Taxpayer Service

	1977	1978	1979	1980	1981	1982
Detroit District						
Soutfield						X
Mt. Pleasant						X
Bay City						X
Monroe						X
Adrian						X
Cadillac						X
Petoskey						X
Niles	X	X	X	X		X
Escanba						X
Sault Stenane						X
Houghton						X
Ironwood						X

Number 4 Quality Statistics (Expressed in Percentage)

	1977			1978			1979			1980			1981		
	W/I	Tele.	Corr.	W/I	Tele.	Corr.	W/I	Tele.	Corr.	W/I	Tele.	Corr.	W/I	Tele.	Corr.
Augusta Dist.	Not Available			Not Available			—	96.25	—	—	95.47	—	—	95.47	—
Anchorage Dist.	95.2	99.4	—	97.5	98.5	—	98.0	98.1	—	92.8	96.6	—	92.8	97.0	—
Portsmouth Dist.	Not Available			Not Available			98.0	98.0	—	98.0	98.0	—	98.0	97.0	—
Little Rock Dist.	Not Available			Not Available			Not Available			94.6	99.1	—	94.0	98.6	—
Detroit Dist.	Not Available			Not Available			Not Available			Not Available			97.4	98.6	—

Quality Review data is based on district wide statistical sampling of tax returns prepared in IRS offices and monitoring of toll-free telephone calls and referrals. Data not shown in particular columns was not available.

Internal Revenue Service Department of the Treasury

Washington, DC 20224

Person to Contact:

Telephone Number:

Refer Reply to:

Date:

5 APR 1982

Mr. Jeff Minsky
c/o Senator William Cohen
1251 Dirksen Office Bldg.
Washington, D.C. 20510

APR 7 '82

Dear Jeff:

In our conversation on March 25, 1982 you asked for documentation concerning the service's estimate of 60% of telephone workload being "Technical" in nature.

I am enclosing (Enclosure 1) a copy of the Fiscal Year 1981 Taxpayer Service Quality Review Occurrence Survey which was used in deriving that estimate. Enclosure 2 itemizes the estimating procedure, reflecting the Quality Review elements considered non-technical and technical during the estimating procedure.

For additional background, Enclosure 3 is an extract of the Internal Revenue Manual which gives a fuller definition of the QREs.

You may also observe in enclosure #1 that of the 30 most frequently sampled QREs, 17 are "technical" in nature (identified by "T"). No inferences can be drawn about the characteristics of the taxpayer asking the question for some QREs, such as "Filing of Returns;" however, for most of the others, I would conclude the taxpayer is asking about items which seldom concern low-income or elderly. This pattern also holds true in the filing period, as evident in Enclosure 4, a summary of the frequency of occurrence of QREs during the FY 81 filing period only.

This is not scientific, conclusive data; but it does suggest that the characteristics (profile) of individuals seeking telephone, technical assistance may be different than those who walk-in for assistance. Hopefully, more reliable data will be provided by GAO later this year or early in 1983.

I hope this has been helpful to you. If you have any questions, about the enclosures, call me on 566-6378.

Sincerely,

Ron Pickering

Ronald I. Pickering
Technical Advisor
Taxpayer Service Division

Enclosures

Enclosure 1

FISCAL YEAR 1981
TAXPAYER SERVICE QUALITY REVIEW OCCURRENCE SURVEY
NATIONAL OFFICE REPORT 13 SOI 50 (MONITORING)

RANK	ORE CODE	ORE DESCRIPTION	# ORE'S SAMPLED	% OF TOTAL
1	74	REFUNDS (FORM 3911)	14304	10.8
2	30	FORMS/PUBLICATIONS REQUESTS	14217	10.7
3	78	SERVICE CENTER NOTICES	7080	5.3
4	32	OFFICE LOCATIONS-HOURS	4501	3.4
T 5	6	FILING OF RETURNS	3790	2.9
6	37	OTHER IRS CALL	3405	2.6
7	38	NON-IRS CALL	2944	2.2
T 8	14	ESTIMATED TAXES	2611	2.0
T 9	715	FEDERAL TAX DEPOSIT FORMS 501,502,5	2413	1.8
10	70	ACCOUNT INFORMATION	2360	1.8
T 11	4	FILING REQUIREMENTS - WHO MUST FILE	2220	1.7
T 12	730	FED INC & SOC SEC W/H FRM 941 THRU	2177	1.6
T 13	712	PREPARATION OF W FORMS	2150	1.6
14	713	NON-RECEIPT OF W-2	2067	1.6
T 15	56	AMENDED RETURNS AND CLAIMS (FORM 10	2035	1.5
16	72	PENALTIES/INTEREST (FORM 2210)	1959	1.5
T 17	115	INTEREST (SCH B)	1958	1.5
18	40	OTHER IRS PROCEDURE/INFORMATION	1915	1.4
T 19	10	DEPENDENTS (FORM 2120)	1890	1.4
T 20	125	CAPITAL GAIN/LOSS (SCHED D, FORM 47	1676	1.3
T 21	230	EMPLOYEE BUSINESS EXPENSE, FORM 210	1583	1.2
22	42	COLLECTION PROCEDURES/INFORMATION	1526	1.1
T 23	128	SALE/EXCHG PERSONAL RESIDENCE (FORM	1508	1.1
T 24	8	FILING STATUS	1508	1.1
T 25	420	INCOME AVERAGING, SCHEDUELE G	1458	1.1
26	50	REQUEST FOR PHOTOCOPY OF RETURN	1439	1.1
27	52	REQUEST FOR TAXPAYER ID NO (SS-4,SS	1378	1.0
T 28	685	RESIDENTIAL ENERGY CREDIT	1356	1.0
T 29	120	SOLE PROPRIETORSHIP, SCHEDULE C	1302	1.0
T 30	330	TAX	1288	1.0
31	714	WITHHOLDINNG/FICA TABLES	1200	.9
32	410	TABLES AND SCHEDULES	1160	.9
33	190	NON-TAXABLE INCOME	1100	.8
34	720	FORM 940	1094	.8
35	79	PA@YMENT AGREEMENTS	1085	.8
36	530	SELF-EMPLOYMENT TAX (SCHEDULE SE)	1033	.8
37	100	INCOME	1002	.8
38	320	MEDICAL AND DENTAL	989	.7
39	66	DEPRECIATE,AMORTIZE,DEPLETE (FORM 4	967	.7
40	150	PENSION AND ANNUITY INCOME (SCH E P	952	.7
41	365	MISCELLANEOUS DEDUCTIONS	950	.7
42	370	UNALLOWABLE DEDUCTION	925	.7
43	630	EARNED INCOME CREDIT	891	.7
44	7	EXTENSIONS (FORMS 2688,4868)	863	.6

T = TECHNICAL TYPE

PREPARED BY- M. BRIORDY
DATE PREPARED- 81/10/23.

FISCAL YEAR 1981
TAXPAYER SERVICE QUALITY REVIEW OCCURRENCE SURVEY
NATIONAL OFFICE REPORT 13 SOI 50 (MONITORING)

RANK	OPE CODE	OPE DESCRIPTION	# OPE'S SAMPLED	% OF TOTAL
45	160	RENT/ROYALTY INCOME)SCHD E/4831,48	765	.6
46	760	INFO STMTS RCPIENTS FRM 1087 1096 1	752	.6
47	861	INDIV RETIREMENT SAVINGS ARRANGEMEN	750	.6
48	345	CASUALTY OR THEFT LOSSES, FORM 4684	724	.5
49	340	CONTRIBUTIONS	673	.5
50	43	PROBLEM RESOLUTION OFFICE	672	.5
51	0	GENERAL	655	.5
52	710	CIRCULAR E	648	.5
53	335	INTEREST EXPENSE	625	.5
54	106	UNEMPLOYMENT COMPENSATION	617	.5
55	64	BASIS OF ASSETS	589	.4
56	615	CHILD CARE CREDIT (FORM 2441)	563	.4
57	870	EXEMPT ORGANIZATIONS	552	.4
58	110	DIVIDENDS-SCHEDULE B	552	.4
59	9	EXEMPTIONS	552	.4
60	400	INCOME TAX COMPUTATION	541	.4
61	315	SCHEDULE A (GENERAL)	539	.4
62	220	MOVING EXPENSE FORM 3903	537	.4
63	600	CREDITS AND PAYMENTS	527	.4
64	140	INSTALLMENT SALES	495	.4
65	305	ITEMIZED DEDUCTIONS/STANDARD DEDUCT	493	.4
66	90	TELEPHONE ASSISTANCE OBSERVABLE REF	490	.4
67	820	CORPORATIONS	475	.4
68	280	DISABILITY INCOME EXCLUSION FORM 24	459	.3
69	430	TAX COMPUTATION SCHEDULE)SCHD TC)	456	.3
70	130	SUPL SCHD OF GAINS AND LOSSES FORM	455	.3
71	900	EXCISE TAXES	452	.3
72	39	REQUEST FOR CALLBACK	445	.3
73	850	GIFT TAX-GENERAL (FORM 709)	441	.3
74	1	FORM 1040/1040A	422	.3
75	620	INVESTMENT CREDIT, FORM 3468	420	.3
76	155	LUMP-SUM DISTRIBUTIONS	407	.3
77	105	WAGES, SALARIES, TIPS	395	.3
78	3	ALIEN FORMS 1040C/1040NR	385	.3
79	610	CREDIT FOR ELDERLY)SCHEDS R AND RP	363	.3
80	44	YRTK REQUESTS	356	.3
81	840	ESTATESG - GENERAL (FORM 706)	341	.3
82	810	PARTNERSHIPS	339	.3
83	62	RECORDKEEPING REQUIREMENTS	336	.3
84	250	INDIVIDUAL RETIREMENT ACCOUNTS	330	.2
85	711	EMPLOYER-EMPLOYEE RELATIONSHIP	318	.2
86	700	EMPLOYMENT	294	.2
87	180	SCHEDULE FILLER	292	.2
88	46	TAXPAYER EDUCATION	292	.2
89	920	WINDFALL PROFITS TAX	286	.2

PREPARED BY- M. BRIORDY
DATE PREPARED- 81/10/23.

FISCAL YEAR 1981
TAXPAYER SERVICE QUALITY REVIEW OCCURRENCE SURVEY
NATIONAL OFFICE REPORT 13 SOI 50 (MONITORING)

RANK	ORE CODE	ORE DESCRIPTION	# ORE'S SAMPLED	% OF TOTAL
90	101	OWNERSHIP OF INCOME PRODUCTING ASSE	250	.2
91	862	KEOGH PLANS	235	.2
92	830	FIDUCIARIES	232	.2
93	500	OTHER TAXES	217	.2
94	36	PRACTIONER/PREPARER INQUIRIES	210	.2
95	200	ADJUSTMENTS	207	.2
96	68	BAD DEBTS	199	.1
97	310	ZERO BRAKCET AMOUNT	193	.1
98	175	NET OPERATING LOSS	184	.1
99	22	DECEDENT (FORM 1310)	178	.1
100	54	PROPSED LEGISLATION	175	.1
101	210	SICKPAY, FORM 2240	172	.1
102	300	DEDUCTIONS AND EXEMPTIONS	160	.1
103	195	INCOME EARNED ABROAD	153	.1
104	860	EMPLOYEE PLANS	144	.1
105	185	SCHOLARSHIPS FELLOWSHIPS GRANTS STI	131	-
106	77	INFORMATION RETURNS (IRP)	126	-
107	76	ACCOUNT ADJUSTMENT	114	-
108	863	OTHER EMPLOYEE PLANS	113	-
109	851	FILING REQUIREMENTS	112	-
110	825	FORM COMPLETION	111	-
111	841	FILING REQUIREMENTS (FORM 706)	100	-
112	196	ALIMONY INCOME	92	-
113	873	EXEMPTION FROM FICA WITHHOLDING	89	-
114	821	FILING REQUIREMENT FORM 2758 7004 7	89	-
115	60	METHOD OF ACCOUNTING (FORM 3115)	84	-
116	811	FILING REQUIREMENT FORM 2758/SCH K	83	-
117	45	FREEDOM OF INFORMATION/PRIVACY ACT	64	-
118	240	KEOGH PLAN	54	-
119	165	INCM/LOSS FROM PART.ETC./SCHD E, PT	52	-
120	686	BUSINESS ENERGY CREEDIT	50	-
121	831	FILING REQUIREMENDTS	45	-
122	80	WRITTEN REQUEST FOR TECH. ADVISE/RE	43	-
123	827	PAYMENTS AND CREDITS (FORM 2220)	39	-
124	815	FORM COMPLETION	37	-
125	800	OTHER BUSINESS RETURNS	20	-

Enclosure 2

TECHNICAL WORKLOAD COMPUTATION
TAXPAYER SERVICE DIVISION

			No. of QRE	%
Total Quality Review Telephone Sample			132,856	100
Account/Procedural:				
CODE 74	Refunds	14303		
30	Forms/Publication Requests	14217		
78	S.C. Notices	7080		
72	Penalties/Interests	1959		
70	Account Info	2360		
713	W-2 Non Receipt	2067		
3	Alien Tax Clearance	385		
42	Collection Procedure	1526		
79	Payment Agreement	1085		
52	T.I.N. Request	1378		
32	Office Location/Hours	4501		
40	Other IRS Procedure	1915		
43	Problem Resolution Office	672		
	Total	53,449	53,449	40.2 %
TECHNICAL (all others			79,407	59.8 %

Source: Quality Review Occurrence Survey,
Report 13, SOI 50
Fiscal Year 1981

Enclosure 3

Exhibit 6

Quality Review Elements (QRE's)

◊

A QRE is to be selected from the list below for each component—subject matter or structural unit—of the taxpayer's stated and/or implied assistance need. See (1) word description for subject matter and (2) form and schedule numbers in parentheses for structural organization covered by the various codes. Both elements which have been and should have been dealt with by the assistor in giving complete, correct service are to be coded. Guidelines for using the QRE's appear in the narrative. This list includes forms and tax law areas which are no longer current, but which are still handled by Taxpayer Service employees, e.g., Schedule E and R, Form 4970.

NOTE: When coding the structural organization of the return, select QRE's for *only* the principal form and attachments. Code a specific area of an attachment (e.g., medical expenses on Schedule A) *only* when a mistake has been made in that area.

000 GENERAL (FORM 2848/4970)

QRE's 000-090 apply to (1) inquiries not specifically related to a particular tax return, (2) 1040 series inquiries including those on delinquent returns, and (3) inquiries which cannot be more specifically coded elsewhere on the list, such as power of attorney, distribution of trust attached to beneficiary's tax return, other agencies' (e.g., Customs; Alcohol, Tobacco and Firearms) forms which IRS has distributed from time to time.

INDIVIDUAL INCOME RETURN (FORM 1040/1040A)

001

To be used in coding (1) all reviewed returns in 1040 series which cannot be more specifically coded (e.g., use 001 when coding all 1040 or 1040A returns; use 003 for 1040C and 1040NR; use 056 for 1040X) and (2) inquiries in SOI 40 generally dealing with 1040 and 1040A returns.

ALIEN (FORM 1040C/1040ES (OIO)/1040NR/1040PR/1042)

003

To be used in coding all reviewed Forms 1040C, 1040ES (OIO), 1040NR, 1040PR and 1042 and inquiries dealing specifically with their preparation. General questions on alien tax responsibilities should also be coded 003.

FILING REQUIREMENTS: WHO MUST FILE

004

For 1040 series return only—other series returns have similar QRE's of their own elsewhere on this list.

FILING OF RETURN

006

For 1040 series returns only—other series' returns have similar QRE's of their own elsewhere on this list. Proper form to File, Where, When and How to File. Includes inquiries on where to mail returns and return receipts (date stamp).

EXTENSION (FORM 2350/2688/4868)

007

For 1040 series returns and other returns not having a similar QRE of their own elsewhere on this list.

FILING STATUS

008

To be used in coding questions on filing status determination and to identify errors in this subject area in returns preparation

EXEMPTION

009

For coding inquiries on personal, spouse, age and blindness exemptions and to identify errors on this subject on a return. Use QRE 010 for other dependency inquiries.

DEPENDENT (FORM 2120)

010

To be used for inquiries on determining dependency using the five tests and to identify return preparation errors in this area. Use QRE 009 for personal, spouse, age and blindness exemptions.

ESTIMATED TAX (FORM 1040-ES)

014

Regulations, requirements and payment procedures, including computing amount. Primarily for 1040 series returns. (e.g., Use QRE 715 for FTD's and 827 for any payment on corporate return.)

DECEDENT (FORM 1310)

022

To be used to code (1) presence of Form 1310 on 1040 series returns and (2) inquiries about filing return of decedent and claiming his/her refund. Dependency and filing status questions concerning deceased taxpayer should be coded 010 and 008, respectively.

FORMS/PUBLICATION REQUEST

030

Do not use an additional QRE to identify form number unless additional information regarding use of form is requested by the taxpayer or given by the assistor. Bulk form orders by preparers are to be coded 036.

Exhibit 6 Cont. (1)

Quality Review Elements (QRE's) ◊

OFFICE LOCATION/HOURS 032

Includes requests for special assistance for individuals (e.g., handicapped), other than YBTK requests which are to be coded under 044 and Public Affairs inquiries which are to be coded with QRE 040. Use QRE 006 to code questions on where to send returns to the field.

PRACTITIONER/PREPARER INQUIRY (FORM 2333/3975A/5717) 036

Includes questions on enrollment exam, annual list of income tax preparers, practitioner mailing list, preparer's identifying number, preparer penalties, bulk form-orders. Technical (tax-related) inquiries made by preparers should not be coded 036; use instead the more specific QRE's describing subject of inquiry without regard to its source. Practitioner institute inquiries are to be coded 046.

OTHER IRS CALL 037

To be used for all transfers/misdirected calls within IRS other than Taxpayer Service and technical referral inquiries. Use QRE 038 for Non-IRS transfers/misdirected calls.

NON-IRS CALL 038

Reserved for all calls to wrong agency. QRE 038 should not be used for transfers to technical referral, other Taxpayer Service areas or to other IRS areas.

REQUEST FOR CALLBACK 039

Reserved for incoming call in which taxpayer asks for a specific employee who previously requested the taxpayer to call and who is now not able to receive this call.

OTHER IRS PROCEDURE/INFORMATION 040

Includes taxpayer inquiries about all areas of IRS except Collection (QRE 042), Problem Resolution Office (QRE 043) and Taxpayer Service activities having more specific QRE's Criminal Investigation and Public Affairs inquiries are to be coded with QRE 040.

COLLECTION PROCEDURE/INFORMATION 042

Includes general questions relating to contents of Publication 586, *The Collection Process (Income Tax Accounts)*. For questions on specific accounts or for payment agreements taken by Taxpayer Service, use 070, 072, 074, 076 or 079.

PROBLEM RESOLUTION OFFICE 043

For use when taxpayer specifically asks for PRO or for general questions about PRO procedures. Use specific subject QRE plus TA Code "F" for those inquiries in which assistor tries to help taxpayer, but eventually refers matter to PRO.

YBTK REQUEST 044

Includes small business seminar inquiries.

TAXPAYER EDUCATION 046

(e.g., VITA, Understanding Taxes, practitioner institutes.) YBTK, small business seminar and activities under auspices of district Public Affairs Officer are to be coded 044 or 040.

FREEDOM OF INFORMATION/PRIVACY ACT INFORMATION 049

Not to include third party request for specific account on entity information which is to be coded with QRE 070.

REQUEST FOR PHOTOCOPY OF RETURN (FORM 4506) 050

REQUEST FOR TAXPAYER IDENTIFICATION NUMBER (SS-4/SS-5/FORM 4149) 052

Includes questions about application, need for and use of TIN. Includes invalid SSN inquiries.

PROPOSED LEGISLATION 054

Includes pending tax legislation before it becomes law. Includes questions on tax credits such as tuition which have been widely publicized, but which are not yet law.

AMENDED RETURN/CLAIM (FORM 1040X/843) 056

Use QRE 730 for Form 941C and QRE 820 for 1120X.

METHOD OF ACCOUNTING (FORM 3115) 060

Includes inquiries on proper reporting of income and deduction of expenses under cash, accrual and other methods of accounting as well as questions regarding changes in existing methods.

RECORDKEEPING REQUIREMENTS 062

Includes general recordkeeping questions without reference to completion of specific return or form.

Exhibit 6 Cont. (2)

Quality Review Elements (QRE's)

◇

BASIS OF ASSET 064

Includes all questions on determining cost basis for tax purposes—may be related to sales, contributions, gifts, etc.

DEPRECIATION/DEPLETION/AMORTIZATION (FORM 4562) 066

Includes all subject questions, regardless of form on which it may be reported or claimed.

BAD DEBT 068

Includes both business and personal, regardless of form to be used in claiming.

ACCOUNT INFORMATION (FORM 2363) 070

Includes specific non-refund questions requiring account research for information on entity, account status and/or balance, Form 2363. Use QRE 042 for general, non-account-related collection information and procedural questions. Use QRE 074 to code refund inquiries.

PENALTY/INTEREST (FORM 2210) 072

Includes both general questions and specific account inquiries on subject, including underpayment of estimated tax penalty, failure to file penalty, failure to pay penalty and computation of these amounts. Account adjustment contact should be coded 076. Preparer penalty questions should be coded 036.

REFUND (FORM 3911) 074

Includes specific questions of when, where and how much as well as completion of Form 3911.

ACCOUNT ADJUSTMENT (FORM 4442/3870) 076

To be used for some account referrals; QRE also includes command code STAUP, Forms 442 and 3870.

INCOME REPORTER PROGRAM (IRP) 077

To be used to code all inquiries on IRP notices issued by service centers.

SERVICE CENTER NOTICE 078

Includes explanation of all notices such as SSN notices, math error notices, TDI's, unallowables and special service center program letters. QRE 078 is to be used only when no account research (070) or adjustment (076) is necessary.

PAYMENT AGREEMENT (FORMS 433D/433AB) 079

Includes completion of payment agreements by Taxpayer Service personnel and taxpayer inquiries about their specific agreements.

WRITTEN REFERRAL 080

To be used only with error/deficiency code(s) when mistake committed on written referral (SOI's 65, 75) cannot be connected with a more specific QRE.

TELEPHONE ASSISTANCE/OBSERVABLE REFERRAL 090

To be used only with error/deficiency code(s) when mistake committed (SOI's 50, 51, 55, 60, 70) cannot be connected with a more specific QRE.

100 INCOME (FORM 3646/PART III OF SCHEDULE B)

Use this general QRE for all types of Form 1040 income inquiries not more specifically described by other QRE's 101-196. 990, 1120 and 1065 series returns have their own codes: 870, 820, 810, respectively.

OWNERSHIP OF INCOME PRODUCING ASSET 101

To be used to code questions on Uniform Gifts to Minors Act, joint ownership of bonds and bank accounts, quasipartnership arrangements, etc. Community property state inquiries should also be coded with QRE 101.

WAGES/SALARIES/TIPS 105

Example: W-2 math verification. Includes questions on tip/token income in states which have legalized gambling.

UNEMPLOYMENT COMPENSATION 106

Includes all inquiries on the taxability of unemployment compensation (taxable or nontaxable).

DIVIDEND (SCHEDULE B) 110

To be used when reviewing 1040 series return with attached Schedule B showing dividend income. Also use for general dividend income questions which cannot be specifically connected to "small" business (120), farm (180), partnership (810) or (820) corporate income.

INTEREST (SCHEDULE B) 115

To be used when reviewing 1040 series return with attached Schedule B showing interest income. Also used for general interest income questions which cannot be specifically connected to "small" business (120), farm (180), partnership (810) or corporate (820) income.

SOLE PROPRIETORSHIP (SCHEDULE C) 120

To be used when reviewing 1040 series return with attached Schedule C. Includes questions on all specific "small" business items determining net income; e.g., inventories, expenses, deductions.

Exhibit 6 Cont. (3)

Quality Review Elements (QRE's)

◊

INTEREST (SCHEDULE B) 115

To be used when reviewing 1040 series return with attached Schedule B showing interest income. Also used for general interest income questions which cannot be specifically connected to "small" business (120), farm (180), partnership (810) or corporate (820) income.

SOLE PROPRIETORSHIP (SCHEDULE C) 120

To be used when reviewing 1040 series return with attached Schedule C. Includes questions on all specific "small" business items determining net income; e.g., inventories, expenses, deductions.

CAPITAL GAIN/LOSS (SCHEDULE D/FORM 4798) 125

To be used when reviewing 1040 series return with attached Schedule D or Form 4798. Also used when subject inquiry cannot be specifically connected to "small" business (120), farm (180), partnership (810) or corporate (820) income. Includes questions on handling items on Schedule D and Form 4798 such as holding period for capital loss/gain treatment and computation of capital loss carryover. Use QRE 140 for specific inquiries regarding installment sales. Basis and depreciation inquiries should be coded 064 and 068.

SALE/EXCHANGE OF PERSONAL RESIDENCE (FORM 2119) 128

To be used when reviewing 1040 series return with attached Form 2119 as well as when monitoring inquiry relating to information on this form.

SUPPLEMENTAL SCHEDULE OF GAIN/LOSS (FORM 4797) 130

To be used when reviewing 1040 series return with attached Form 4797 as well as when monitoring inquiry relating to information on this form. Involuntary conversion due to casualty or theft and nontaxable exchange are to be coded with QRE 130. Includes determination of "like property," of recognized or non-recognized gain and of deductible or non-deductible loss.

INSTALLMENT SALE 140

Includes determination of sale qualifying for installment method of reporting income from deferred payment sales, computation of unstated interest, repossession or disposition of installment obligation.

PENSION/ANNUITY INCOME (SCHEDULE E) 150

To be used when reviewing 1040 series return with attached Schedule E showing this type of income and when monitoring inquiry relating to information on this subject. Includes fully taxable, general rule, three-year rule, death benefit exclusion and tax-sheltered annuity.

LUMP-SUM DISTRIBUTION 155

Includes Armed Forces payments and distributions from employees' plans.

RENT/ROYALTY INCOME (SCHEDULE E/FORM 4835) 160

To be used when reviewing 1040 series return with attached Schedule E or Form 4835 showing this type of income. Also used when subject inquiry cannot be specifically connected to "small" business (120), farm (180), partnership (810) or corporate (820) income. Inquiries on farm rental income are to be coded with QRE 160.

INCOME/LOSS FROM PARTNERSHIP, ETC. (SCHEDULE E) 165

To be used when reviewing 1040 series return with attached Schedule E showing this type of income as well as when monitoring inquiry relating to transferred information to this section of Schedule E. Use QRE's under "800" series when inquiry involves determination of income prior to transfer to individual's return.

NET OPERATING LOSS (FORM 1045) 175

Includes 7-year carryover. Use code in "800" series for inquiries relating specifically to subject treatment for business other than sole proprietorship.

FARM INCOME (SCHEDULE F) 180

To be used when reviewing 1040 series return with attached Schedule F as well as when monitoring inquiry related to any items determining net income as shown on this schedule, e.g., income, deductions. Farm rental income inquiries are to be coded using QRE 160.

SCHOLARSHIP/FELLOWSHIP/GRANT/STIPEND 185

Includes questions on the excludable portions of these income items.

NON-TAXABLE INCOME 190

Includes inquiries on inheritance, child support, Workmen's Compensation.

EXEMPTION OF INCOME EARNED ABROAD (FORM 2555/4683/IO-434/IO-435) 195

To be used when reviewing 1040 series return with attached Form 2555 showing this type of income or when monitoring inquiry relating to foreign-earned income. "Form 2555" or "Form 4683" returns and inquiries which are limited to tax computation should be coded using QRE 195.

Exhibit 6 Cont. (4)

Quality Review Elements (QRE's)

ALIMONY INCOME 195

To be used for inquiries regarding receipt of alimony and determination of taxability of payments received by ex-spouse.

200 ADJUSTMENT

To be used for coding all Form 1040 adjustments to income not more specifically described from 210 to 280 below (e.g., fellowship exclusion, alimony adjustment and forfeited interest penalty for premature withdrawal). Also used to code discussion and problem of placement of an item within the adjustment section of Form 1040.

SICK PAY EXCLUSION (FORM 2440) 210

Example: Disability payment excludable as sick pay on prior years' returns.

MOVING EXPENSE (FORM 3903) 220

Includes qualifying for and claiming this adjustment to income.

EMPLOYEE BUSINESS EXPENSE (FORM 2106) 230

Limited to items shown and deducted on Form 2106. Code inquiries on Schedule A employee deductions (educational expenses, uniforms, union dues, etc.) as QRE 365.

KEOGH PLAN 240

Limited to inquiries about payment deduction on Form 1040. Questions on qualifying, establishing and maintaining a plan should be coded using QRE 862.

INDIVIDUAL RETIREMENT ACCOUNT (FORM 5329) 250

Limited to inquiries about deduction on Form 1040 and preparation of Form 5329.

DISABILITY INCOME EXCLUSION 280

Example: Adjustment to income available to retired personnel who is not yet 65, but who is receiving disability pay and was permanently and totally disabled at time of retirement. Use QRE 210 to code inquiries on disability payments formerly excludable as sick pay.

300 DEDUCTION

Use this general QRE for all types of deduction inquiries not more specifically described by other QRE's 305–370. 990, 1120 and 1065 series returns have their own codes: 870, 820, 810 respectively. Non-deductible items should be included in QRE 370, however, items considered in proposed or pending legislation are to be coded 054.

ITEMIZED DEDUCTIONS/ZERO BRACKET AMOUNT 305

Limited to situations in which assistor weighs facts presented by taxpayer and makes a determination for taxpayer's benefit, even if determination later proves to be wrong.

ZERO BRACKET AMOUNT 310

Includes inquiries on current maximum amount of standard deduction; use also with error/deficiency code if mistake is found in amount shown when reviewing SOI's 30, 31 and 40.

ITEMIZED DEDUCTION (GENERAL)/SCHEDULE A 315

(To be used when coding Form 1040 with attached Schedule A.) Includes general questions on types of items which qualify as itemized deductions, math verification of Schedule A entries and total; use also with error/deficiency code if mistake is found when reviewing SOI's 31 or 40 which is not attributable to more specific QRE (e.g., math mistake on Schedule A should be coded QRE 315 with EC 102 or DC 103).

MEDICAL/DENTAL EXPENSE 320

(QRE's 320–370 relate solely to Schedule A, Form 1040 deductions—other series returns have their own codes; 870 (990), 820 (1120 and 810 (1965).) QRE's 320–370 should be used only if mistake can be attributed to a specific QRE.

TAX 330

Use to code inquiry about taxes which are deductible on Schedule A. Includes state income tax, real estate tax and gas and sales taxes.

INTEREST EXPENSE 335

CONTRIBUTION 340

CASUALTY/THEFT LOSS (FORM 4684) 345

For Form 1040 personal losses only; use QRE 130 for business (sole proprietorship) losses.

Exhibit 6 Cont. (5)

Quality Review Elements (QRE's)

◊

MISCELLANEOUS DEDUCTION 365

To be used to code other items deductible in that section of Schedule A, including deductions beyond interest and real estate taxes on hobby losses, rental of vacation home and alimony payments in 1976 and prior years, expense for household/dependent care service for tax years prior to 1976, office in home expense and educational expense not deducted on Form 2106.

UNALLOWABLE DEDUCTION 370

Includes inquiries on any personal expense which is not deductible on Schedule A.

400 INCOME TAX COMPUTATION (FORMS 4972/4726)

Use this general QRE for all types of income tax computation inquiries not more specifically described by other QRE's 410–430, 1120 series returns have their own code: 820. Use QRE 400 to code inquiries on special 10-year averaging (Form 4726) and alternative tax.

TABLE/SCHEDULE 410

Use for inquiries on use of tax table and tax rate Schedules X, Y, and Z.

INCOME AVERAGING METHOD (SCHEDULE G) 420

Use for coding (1) 1040 return having or which should have attached Schedule G and (2) inquiries on this subject.

TAX COMPUTATION SCHEDULE (SCHEDULE TC) 430

Use for coding (1) 1040 return having or which should have attached Schedule TC and (2) inquiries on this subject.

500 OTHER TAX (FORM 4255/4625/4137)

Use this general QRE to code all inquiries about Federal Taxes not more specifically coded in QRE 530 or elsewhere on this list. Use QRE 861 for excess contribution tax and premature distribution tax on Individual Retirement Account (IRA). Use QRE 500 to code presence of Forms 4255, 4625 and 4137 attached to Form 1040 and inquiries on recapture of investment credit, minimum tax and Social Security tax on tip income.

SELF-EMPLOYMENT TAX (SCHEDULE SE) 530

600 CREDIT OTHER PAYMENT (FORM 4874/1116/1118/2439/4136/5884)

Use this general QRE to code all credits and payments not more specifically coded in QRE's 610–630 and to indicate presence of Forms 4874, 1116, 1118, 2439 and 4136. Includes tax credit for political contributions, credits available on prior years' returns, excess FICA/RRTA, WIN credit, foreign tax credit, regulated investment company credit, fuel tax credit, job credit, general tax credit and additional W–2 withholding on Form 1040X.

CREDIT FOR ELDERLY (SCHEDULE R/RP) 610

Use to code (1) presence of Schedule R or RP on 1040 return and (2) inquiries on this subject.

CHILD CARE CREDIT (FORM 2441) 615

INVESTMENT CREDIT (FORM 3468) 620

EARNED INCOME CREDIT 630

RESIDENTIAL ENERGY CREDIT (FORM 5695) 685

To be used on coding taxpayers inquiries on this subject or when reviewing Form 5695 attached to Form 1040.

BUSINESS ENERGY CREDIT 686

To be used on coding all inquiries on Business Energy Credits including the preparation or review of Schedule B of Form 3468, Computation of Business Energy Credit.

700 EMPLOYMENT/INCOME INFORMATION RETURN

Use this general QRE to code all employment and income information returns not more specifically described by other QRE's 710–730. Use QRE's 052, 036 and 873, respectively, for inquiries on SSN's preparer's ID number and exempt organizations as employers.

CIRCULAR E 710

Use to code inquiries about this IRS publication such as date of reissue as well as its contents (example: types of income covered) when not more specifically described by other "700" series codes.

EMPLOYER-EMPLOYEE RELATIONSHIP 711

PREPARATION OF "W" FORM 712

Include W–2, W–3, W–4, W–5 forms questions whether posed by employer or employee. Also includes employer's responsibilities in distribution of these forms.

Exhibit 6 Cont. (6)

Quality Review Elements (QRE's) ◇

NON-RECEIPT OF W-2 (FORM 4852) 713

Subject area of this QRE provides information to employees; includes inquiries on incorrect information shown on W-2 and substitute W-2.

WITHHOLDING/FICA TABLE 714

FEDERAL TAX DEPOSIT (FORM 501/503/504/508) 715

Includes requests for FTD's, instructions on making deposits. Use QRE 070 for inquiries requiring account research.

FEDERAL UNEMPLOYMENT TAX RETURN (FORM 940/940 PR) 720

FEDERAL INCOME AND SOCIAL SECURITY WITHHOLDING TAX (FORM 941/941 PR/942/942 PR/943/943 PR) 730

Includes inquiries on CT-1, CT-2, 941C and 941NMI.

INFORMATION STATEMENT FOR RECIPIENT (FORM 1087/1096/1099, etc.) 760

Includes inquiries on payor's responsibilities in distribution.

800 OTHER RETURN

Use this general QRE to code inquiries not more specifically described by other QRE's 810-873. "800" series QRE's are reserved for inquiries peculiar to a particular business form for which a QRE doesn't exist outside the "800" series. (e.g., a corporate depreciation is coded 066 because that more specific QRE exists outside the "800" series; an inquiry on corporate current expenses is coded QRE 820 as only less specific QRE's exist anywhere.)

PARTNERSHIP—GENERAL (FORM 1065) 810

Use to code (1) all Forms 1065 including delinquent returns and (2) general inquiries on this form or form of business organization which are not more specifically described by QRE's 811 or 815.

FILING REQUIREMENT (FORM 2758) 811

Who, what, where, how, when and why. Filing requirement inquiries relating to partnership termination, extension of time to file and inquiries about return receipt (date stamp) should be coded 811.

FORM COMPLETION 815

Includes technical preparation questions relating to Form 1065 and Schedules K/K-1. Tax Law question on such partnership subject as income, deductions, tax credit and termination should be coded with QRE 810.

CORPORATION—GENERAL (FORM 1120/1120S/966/, etc.) 820

Use to code (1) all Form 1120 family returns including delinquent returns and (2) general inquiries on these forms or form of business organization which are not more specifically described by QRE's 821-827. Includes Form 1120X.

FILING REQUIREMENTS (FORM 2758/7004/7005 821

Who, what, where, how, when and why. Filing requirement inquiries relating to corporate dissolution and liquidation and questions on return receipt (date stamp) and extension of time to file should be coded QRE 821.

FORM COMPLETION 825

Includes technical preparation questions relating to Form 1120/1120S, etc. and Schedules J and K. Tax laws questions on such corporate subjects as income, deductions and dissolution/liquidation should be coded with QRE 820.

PAYMENT/CREDIT (FORM 220/4466) 827

Includes estimates, payments with 7004 and 7005, new job credits. Select QRE 070 for account research of corporate payments and credits.

FIDUCIARY—GENERAL (FORM 1041) 830

Use to code (1) all Forms 1041 including delinquent returns and (2) all inquiries on 1041 and fiduciaries except filing requirement questions which are to be coded 831.

FILING REQUIREMENT 831

Who, what, where, when and why, including receipt of returns (date stamp). All other questions on fiduciaries are to be coded 830.

ESTATE—GENERAL (FORM 706) 840

Use to code (1) all Forms 706 including delinquent returns and (2) all inquiries on 706 and estates except filing requirement questions which are to be coded 841. Use QRE 022 for decedent questions.

FILING REQUIREMENT 841

Who, what, where, how, when and why, including receipt of returns (date stamp). All other questions on estates are to be coded 840.

Exhibit 6 Cont. (7)

Quality Review Elements (QRE's) ◊

GIFT TAX—GENERAL (FORM 709) 850

Use to code (1) all Forms 709 including delinquent returns and (2) all inquiries on 709 and gifts except filing requirement questions which are to be coded 851. Contributions to qualifying organizations are to be coded 340.

FILING REQUIREMENT 851

Who, what, where, how, when and why, including receipt of returns (date stamp). All other questions on gifts are to be coded 850.

EMPLOYEE PLAN—GENERAL 860

Use to code inquiries not more specifically covered by QRE's 861–863 below. "860" series QRE's are not to be used to code payment deduction on Form 1040; QRE's 240 and 250 are to be used for this purpose.

INDIVIDUAL RETIREMENT SAVINGS ARRANGEMENT 861

Use to code questions on establishment or maintenance of an individual retirement savings program (IRA) for employees. Questions on Form 5329 completion and all Forms 5329 reviewed as well as deduction of payments on Form 1040 should be coded 250.

KEOGH PLAN (FORM 5500K) 862

Use to code (1) inquiries on establishment or maintenance of a retirement plan for self-employed individuals or partnerships (HR–10), (2) questions on Form 5500K completion, and (3) all 5500K's reviewed. Payment deduction on Form 1040 should be coded 240.

OTHER EMPLOYEE PLAN (5500 SERIES OTHER THAN 5500K) 863

Use to code (1) inquiries on specific employee plans other than those to be coded 861 and 862, (2) questions on completion of "5500" series returns other than 5500K; and all "5500" series returns other than 5500K under review. Use 860 for general inquiries on employee plans.

EXEMPT ORGANIZATION—GENERAL (PACKAGE 1023/1024/FORM 1120H, etc./990 series) 870

Use to code all exempt organization questions except exemptions from FICA withholding which is to be coded QRE 873. Includes forms reviewed as shown after heading, inquiries relating to their completion and subject content, delinquent filing and return receipt (date stamp).

CERTIFICATE ELECTING SOCIAL SECURITY COVERAGE(SS–15) 873

Use to code (1) all Forms SS–15 reviewed and (2) inquiries regarding SS–15 subject content and completion.

900 EXCISE TAX (FORM 11/720/2290)

Use to code all inquiries on excise taxes including use and stamp taxes. QRE 900 is also to be used to structurally code Forms 11, 720, 2290, and 4638. Questions on delinquent excise returns and return receipt (date stamp) are also to be coded QRE 900.

WINDFALL PROFITS 920

To be used on all technical inquiries, form preparation and filing requirement inquiries on the windfall profits tax.

Exhibit 1d. Part 1

Enclosure 4

QUALITY REVIEW OCCURRENCE SAMPLING
SURVEY AND ACCURACY RATES
NATIONAL - TELEPHONES - 1981 FILING PERIOD

RANK	QRE CODE	QRE DESCRIPTION	# QRE's SAMPLED	% OF TOTAL	ACCURACY RATE
1	30	FORMS/PUBLICATIONS REQUESTS	10483	11.5	99.87
2	74	REFUNDS (FORM 3911)	8065	8.8	99.70
3	32	OFFICE LOCATION/HOURS	3420	3.7	99.74
4	6	FILING OF RETURNS	3347	3.7	98.75
5	78	SERVICE CENTER NOTICES	2505	2.7	99.12
6	38	NON-IRS CALL	2159	2.4	99.91
7	713	NON-RECEIPT OF W-2	1956	2.1	99.23
8	4	FILING REQUIREMENTS - WHO MUST FILE	1867	2.0	95.61
9	37	OTHER IRS CALL	1780	1.9	99.94
10	712	PREPARATION OF W FORMS	1667	1.8	96.64
11	10	DEPENDENTS (FORM 2120)	1613	1.8	91.69
12	115	INTEREST (SCH B)	1604	1.8	97.01
13	56	AMENDED RETURNS AND CLAIMS (FORM 1040X)	1541	1.7	97.66
14	230	EMPLOYEE BUSINESS EXPENSE, FORM 2106	1359	1.5	93.08
15	14	ESTIMATED TAXES	1353	1.5	96.67
16	8	FILING STATUS	1305	1.4	96.78
17	715	FEDERAL TAX DEPOSIT FORMS 501,502	1271	1.4	95.75
18	420	INCOME AVERAGING, SCHEDULE G	1251	1.4	96.96
19	730	FED INC & SOC SEC W/H FRM 941 THRU 943	1238	1.4	96.85
20	330	TAX (ITEMIZED DEDUCTION)	1211	1.3	95.71
21	125	CAPITAL GAIN/LOSS (SCHED D, FORM 4797)	1164	1.3	95.10
22	120	SOLE PROPRIETORSHIP, SCHEDULE C	1156	1.3	95.24

page two

RANK	QRE CODE	QRE DESCRIPTION	# QRE's SAMPLED	% OF TOTAL	ACCURACY RATE
23	70	ACCOUNT INFORMATION	1153	1.3	99.13
24	40	OTHER IRS PROCEDURE/INFORMATION	1076	1.2	93.63
25	685	RESIDENTIAL ENERGY CREDIT	1064	1.2	96.24
26	128	SALE/EXCHG PERSONAL RESIDENCE (FORM 2119)	1030	1.1	94.37
27	50	REQUEST FOR PHOTOCOPY OF RETURN	949	1.0	99.16
28	72	PENALTIES/INTEREST (FORM 2210)	938	1.0	92.96
29	190	NON-TAXABLE INCOME	890	1.0	96.85
30	410	TABLES AND SCHEDULES	883	1.0	98.53
31	100	INCOME	857	.9	93.93
32	370	UNALLOWABLE DEDUCTION	848	.9	97.88
33	320	MEDICAL AND DENTAL	844	.9	96.45
34	365	MISCELLANEOUS DEDUCTIONS	833	.9	93.40
35	530	SELF-EMPLOYMENT TAX (SCHEDULE SE)	817	.9	96.45
36	720	FORM 940	804	.9	97.51
37	630	EARNED INCOME CREDIT	786	.9	96.06
38	66	DEPRECIATE, AMORTIZE, DEPLETE	784	.9	96.81
39	42	COLLECTION PROCEDURES/INFORMATION	770	.8	98.70
40	7	EXTENSIONS (FORMS 2688, 4868)	761	.8	96.98
41	150	PENSION AND ANNUITY INCOME	760	.8	96.18
42	714	WITHHOLDING/FICA TABLES	756	.8	97.75
43	52	REQUEST FOR TAXPAYER ID NO (SS-4-SS-5)	720	.8	98.33
44	760	INFO STMTS RCPIENTS FRM 1087, 1096, 1099	663	.7	97.29
45	345	CASUALTY OR THEFT LOSSES, FORM 4684	644	.7	95.96
46	160	RENT/ROYALTY INCOME - SCHD E/4831, 48	644	.7	95.65
47	106	UNEMPLOYMENT COMPENSATION	591	.6	96.79
48	335	INTEREST EXPENSE	543	.6	94.66

RANK	QRE CODE	QRE DESCRIPTION	# QRE's SAMPLED	% OF TOTAL	ACCURACY RATE
49	340	CONTRIBUTIONS	518	.6	95.56
50	861	INDIV RETIREMENT SAVINGS ARRANGEMENT	507	.6	95.46
51	0	GENERAL	493	.5	97.97
52	110	DIVIDENDS, SCHEDULE B	479	.5	96.87
53	315	SCHEDULE A (GENERAL)	478	.5	98.12
54	615	CHILD CARE CREDIT (FORM 2441)	474	.5	95.78
55	220	MOVING EXPENSE FORM 3903	458	.5	92.79
56	64	BASIS OF ASSETS	457	.5	96.50
57	9	EXEMPTIONS	442	.5	98.19
58	305	ITEMIZED DEDUCTIONS/STANDARD DEDUCTION	438	.5	98.17
59	710	CIRCULAR E	430	.5	98.84
60	430	TAX COMPUTATION SCHEDULE (SCHD TC)	410	.4	96.83
61	43	PROBLEM RESOLUTION OFFICE	399	.4	98.25
62	400	INCOME TAX COMPUTATION	395	.4	96.46
63	1	FORM 1040/1040A	388	.4	98.71
64	600	CREDITS AND PAYMENTS	381	.4	97.38
65	280	DISABILITY INCOME EXCLUSION FORM 2440	369	.4	93.50
66	79	PAYMENT AGREEMENTS	365	.4	98.08
67	130	SUPL SCHD OF GAINS AND LOSSES	349	.4	93.41
68	90	TELEPHONE ASSISTANCE OBSERVABLE REF	346	.4	99.13
69	105	WAGES, SALARIES, TIPS	345	.4	97.10
70	155	LUMP-SUM DISTRIBUTIONS	326	.4	94.48
71	610	CREDIT FOR ELDERLY SCHEDS R AND RP	322	.4	94.10
72	620	INVESTMENT CREDIT, FORM 3468	306	.3	96.41
73	140	INSTALLMENT SALES	304	.3	96.71

RANK	QRE CODE	QRE DESCRIPTION	# QRE's SAMPLED	% OF TOTAL	ACCURACY RATE
74	870	EXEMPT ORGANIZATIONS	266	.3	98.87
75	250	INDIVIDUAL RETIREMENT ACCOUNTS	248	.3	96.77
76	46	TAXPAYER EDUCATION	248	.3	98.79
77	820	CORPORATIONS	237	.3	97.89
78	180	SCHEDULE FILER	235	.3	98.30
79	62	RECORDKEEPING REQUIREMENTS	233	.3	95.71
80	810	PARTNERSHIPS	228	.2	97.37
81	850	GIFT TAX-GENERAL (FORM 709)	226	.2	98.67
82	920	WINDFALL PROFITS TAX	223	.2	98.65
83	39	REQUEST FOR CALL BACK	222	.2	100.0
84	44	YBTK REQUESTS	195	.2	98.97
85	3	ALIEN FORMS 1040C/1040NR	195	.2	96.41
86	711	EMPLOYER-EMPLOYEE RELATIONSHIP	193	.2	96.37
87	900	EXCISE TAXES	191	.2	95.81
88	101	OWNERSHIP OF INCOME PRODUCING ASSETS	187	.2	93.05
89	200	ADJUSTMENTS	171	.2	95.91
90	310	ZERO BRACKET AMOUNT	167	.2	98.20
91	830	FIDUCIARIES	165	.2	100.0
92	840	ESTATES - GENERAL (FORM 706)	159	.2	98.74
93	700	EMPLOYMENT	158	.2	96.84
94	68	BAD DEBTS	155	.2	98.06
95	22	DECEDENT (FORM 1310)	142	.2	95.77
96	862	KEOGH PLANS	137	.2	98.54
97	210	SICKPAY, FORM 2240	135	.1	99.26
98	500	OTHER TAXES	131	.1	97.71

RANK	CRE CODE	CRE DESCRIPTION	# CRE's SAMPLED	% OF TOTAL	ACCURACY RATE
99	300	DEDUCTIONS AND EXEMPTIONS	131	.1	96.18
100	175	NET OPERATING LOSS	131	.1	94.66
101	36	PRACTITIONER/PREPARER INQUIRIES	117	.1	98.29
102	185	SCHOLARSHIPS, FELLOWSHIPS GRANTS	108	.1	93.52
103	195	INCOME EARNED ABROAD	92	.1	97.83
104	77	INFORMATION RETURNS (IRP)	90	*	96.67
105	860	EMPLOYEE PLANS	66	*	100.0
106	196	ALIMONY INCOME	66	*	96.97
107	54	PROPOSED LEGISLATION	59	*	100.0
108	811	FILING REQUIREMENT FORM 2758/SCH K	57	*	98.25
109	851	FILING REQUIREMENTS	55	*	100.0
110	841	FILING REQUIREMENTS (FORM 706)	55	*	96.36
111	60	METHOD OF ACCOUNTING (FORM 3115)	54	*	98.15
112	863	OTHER EMPLOYEE PLANS	52	*	100.0
113	165	INCM/LOSS FROM PART. ETC./SCHD E	45	*	100.0
114	873	EXEMPTION FROM FICA WITHHOLDING	44	*	95.45
115	76	ACCOUNT ADJUSTMENT	44	*	97.73
116	686	BUSINESS ENERGY CREDIT	41	*	100.0
117	240	KEOGH PLAN	40	*	97.50
118	49	FREEDOM OF INFORMATION/PRIVACY ACT	40	*	97.50
119	821	FILING REQUIREMENT FROM 2758, 7004	39	*	100.0
120	815	FORM COMPLETION	26	*	100.0
121	831	FILING REQUIREMENTS (FORM 1041)	25	*	100.0
122	825	FORM COMPLETION	25	*	100.0

*less than .1%

RANK	QRE CODE	QRE DESCRIPTION	# QRE's SAMPLED	% OF TOTAL	ACCURACY RATE
123	80	WRITTEN REQUEST FOR TECH ADVICE/REQUEST	21	*	100.0
124	827	PAYMENTS AND CREDITS (FORM 2220)	17	*	94.12
125	800	OTHER BUSINESS RETURNS	9	*	100.0

*less than .1%

COMMISSIONER OF INTERNAL REVENUE
Washington, DC 20224

Honorable William S. Cohen
Chairman, Subcommittee on Oversight of
Government Management
Committee on Governmental Affairs
United States Senate
1251 Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. Chairman:

As a result of the important role you have in the Congressional oversight of the Internal Revenue Service, I wanted to inform you of certain changes we will be making to the structure and organization of the Service's National Office. These changes, which we will shortly be announcing publicly, should enhance the ability of the Service to respond more quickly and efficiently to problems with our policies and procedures, to develop new policies in response to changing times, and to eliminate certain duplications of effort.

The role of the National Office is to provide policy direction and guidance to the District offices so that they can administer the tax laws uniformly and fairly. I have found that the present structure and operation of the National Office presents certain problems in providing adequate guidance in some of our most important areas of responsibility. This results, to a large extent, from the unequal division of responsibility and work among the present Assistant Commissioners and the splitting of some important responsibilities between two or more different offices. In addition, I have found that the responsibility for legal review of rulings and regulations, which is presently shared between the Office of Chief Counsel and the Assistant Commissioner (Technical), has resulted in some overlapping and duplication of activities.

The enclosed attachment provides a more detailed description of the changes being made. I would like to highlight, however, certain aspects of this plan.

The proposed reorganization will provide a more cohesive and impressive executive tier under my immediate supervision, by establishing three Associate Commissioner positions to be responsible for line operations, administration, and data processing. The establishment of these three Associate Commissioner positions will reduce substantially the number of executives who report directly to the Commissioner's Office. It will also provide for a small cadre of executives to act as principle advisors to me. It is envisoned that some of the responsibilities of this group would include serving as an internal policy committee, strategic planning committee, budget review committee, and Executive Resources Board. The independent role played by the Inspection Service will be retained and the Assistant Commissioner (Inspection) will report directly to my office.

The ruling activities which are presently handled by the Assistant Commissioner (Technical) will be combined with the operations of the Chief Counsel's office. We will also be proposing a change in our administrative regulations that will give authority over the Appeals function to the Office of Chief Counsel. This will place in one organization the review of disputes over the results of taxpayer examinations and should enhance our capability to resolve taxpayer disputes more expeditiously and at lower levels, therefore, promoting efficient administration and saving money for the taxpayers involved. Taxpayers right to an Appellete hearing will not be involved by the change.

Finally, I have established an office of Congressional Liaison under an Assistant to the Commissioner who will report directly to me.

The intent of these changes is to streamline and make more responsive the policy and direction setting mechanisms of the National Office. They will not affect the operations of our District offices. The District Directors will continue to report to the Regional Commissioners who will continue to report directly to me through the Deputy Commissioner.

This plan has been carefully reviewed by the Treasury Department and will be implemented on the authority of the Secretary under reorganization plan 26 of 1950 and reorganization plan 1 of 1952 and under Section 7801(b)(2) of the Internal Revenue Code which gives authority to the Secretary to prescribe the duties of the Chief Counsel.

I will be glad to respond to any questions you may have on these plans.

With kind regards,

Sincerely,

Roscoe Egger

Enclosure

PRESENT ORGANIZATION

COMMISSIONER

- Assistant to the Commissioner (Equal Employment Opportunity)
- Assistant to the Commissioner (Public Affairs)
- Assistant to the Commissioner (Taxpayer Ombudsman)
- Assistant Commissioner (Taxpayer Service & Returns Processing)
- Assistant Commissioner (Resources Management)
- Assistant Commissioner (Compliance)
- Assistant Commissioner (Data Services)
- Assistant Commissioner (Employee Plans/Exempt Organizations)
- Assistant Commissioner (Inspection)
- Assistant Commissioner (Planning & Research)
- Assistant Commissioner (Technical)
- Seven Regional Commissioners
- Chief Counsel
(Functional Supervision)

PROPOSED ORGANIZATION

COMMISSIONER

- Assistant to the Commissioner (Public Affairs)
- Assistant to the Commissioner (Congressional Affair
- Assistant to the Commissioner (Taxpayer Ombudsman/ Taxpayer Information
- Assistant Commissioner (Inspection)
- Associate Commissioner (Operations)
  - Assistant Commissioner (Employee Plans/Exempt Org
  - Assistant Commissioner (Criminal Investigation)
  - Assistant Commissioner (Examination)
  - Assistant Commissioner (Collection)
- Associate Commissioner (Planning, Finance, Researc Resources)
  - Assistant Commissioner (Support and Services)
  - Assistant Commissioner (Human Resources)
  - Assistant Commissioner (Planning, Finance and Research)
- Associate Commissioner (Returns, Information and Data Processing)
  - Assistant Commissioner (Computer Services)
  - Assistant Commissioner (Returns and Information Processing)
- Seven Regional Commissioners
- Chief Counsel (Line Authority for Technical Matters and Appeals)

COMMISSIONER OF INTERNAL REVENUE
Washington, DC 20224

JAN 26 1982

Honorable William S. Cohen
Chairman, Subcommittee on Oversight of
Government Management
Committee on Governmental Affairs
United States Senate
1251 Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. Chairman:

On behalf of Commissioner Egger, I am sending you today more detailed charts and explanations on the IRS reorganization. The reorganization was formally approved by the Secretary on January 11, 1982. I believe that the enclosed information will provide answers to the questions you may have had as a result of the general explanation Commissioner Egger sent you on December 8, 1981.

If you have further questions, however, we will be happy to brief either you or your staff at any time.

With kind regards,

Sincerely,

Charles W. Wheeler
Assistant to the Commissioner

Enclosures

Department of the Treasury Internal Revenue Service

Reorganization of the
Internal Revenue Service

National Office - Commissioner of Internal Revenue

The reorganization is expected to have a positive effect on the administration of the tax laws. It will enhance the Commissioner's ability to respond quickly and efficiently to problems with Service policies and procedures, and to develop new policies in response to changing times and conditions. The changes are solely to improve the administration of the IRS and are consistent with Reorganization Plan No. 26 of 1959 and with Reorganization Plan No. 1 of 1952.

The Deputy Commissioner will remain the IRS' top career official and chief operating officer. However, instead of many assistant commissioners reporting directly to the Deputy Commissioner, three new top level career executive positions have been created: Associate Commissioners for Operations, Policy and Management and Data Processing.

The function of these new positions will be to insure continuing policy development, oversight and control of Service activities and to coordinate the efforts and activities of the Assistant Commissioners responsible for the functional direction of tax administration operating programs. This change will reduce the Commissioner's span of control and that of the Deputy Commissioner without compromising the requirement for continuing direction and involvement of the Commissioner's Office in all program matters. The Associate Commissioners will be the Senior Career Executive Council to whom the Commissioner will look for comprehensive advice and assistance in the formulation and issuance of policy, development of programs and management of Service operations.

Assistant Commissioners for the Collection, Examination, and Criminal Investigation functions will be established and they will report to the Associate Commissioner (Operations), along with the Assistant Commissioner (Employee Plans and Exempt Organizations). This new rank for enforcement functions recognizes the critical role they play in tax administration, provides a focal point for top level contacts on issues of concern within and outside the Service and assures continued top level oversight for each activity. The alignment will establish closer working relationships between the functions, as well as provide for better coordination of programs, resource planning, and monitoring and evaluation of field operations.

The Taxpayer Service Division will be retitled the Office of Tax Information and transferred to the new Assistant Commissioner (Examination). This move will allow for closer coordination and liaison, particularly in technical tax issues, between the Tax Information program and the Examination function.

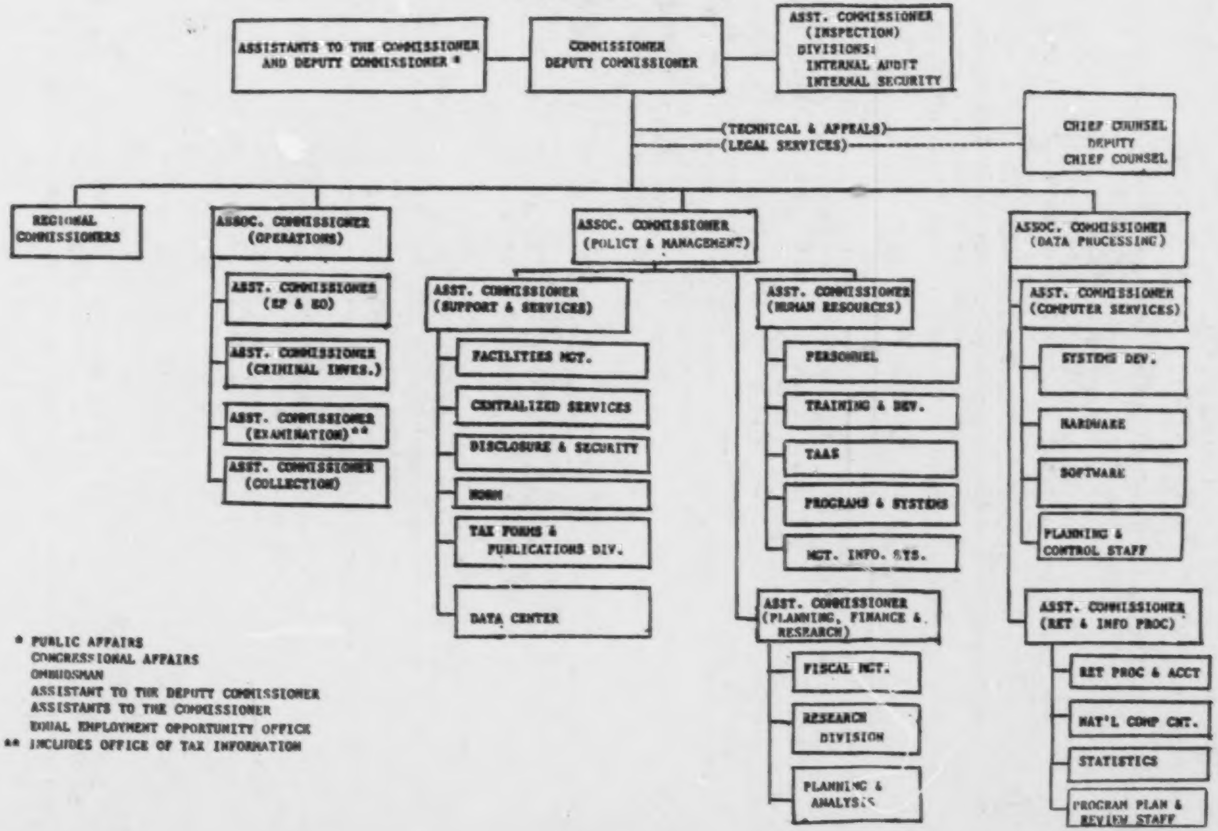
An Assistant Commissioner (Computer Services) and an Assistant Commissioner (Returns and Information Processing) will be established under the direction of a new Associate Commissioner (Data Processing). A realignment of subordinate organizations will incorporate under one Assistant Commissioner all of the main-line computer services and programming support, and under the other, responsibility for returns and information processing and for operating facilities. This change will provide a better base for planning ADP systems requirements and setting operating practices by insuring continuing executive attention on these program areas.

New Assistant Commissioners titled Assistant Commissioner (Planning, Finance and Research), Assistant Commissioner (Human Resources) and Assistant Commissioner (Support Services) are being established and placed under the Associate Commissioner (Policy and Management). This alignment assigns to one senior executive all administrative and general management functions of the Service. It establishes a central point for administrative program direction and insures proper involvement of planning and support activities in the operation, management and direction of Service programs. Realignments of some subordinate organizations will occur to enhance coordination, eliminate duplicative work functions, and reduce span of control.

The Service will continue to place a high priority on the integrity and efficiency of its personnel and programs. In keeping with this commitment, the Assistant Commissioner (Inspection), responsible for the Internal Security and Internal Audit functions, will continue to report to the Commissioner's Office.

An Assistant to the Commissioner for Congressional Affairs will be established in the immediate office of the Commissioner. This Office will consolidate under a single executive all of the Congressional liaison functions which are currently decentralized throughout the National Office. The Office will be responsible for the planning and coordination of legislative matters which affect the Service with the Treasury Department, Office of Management and Budget or Congress, and will provide oversight for the implementation of legislation within the Service. This person will also be responsible for coordinating Congressional hearings (except those involving appropriations). The assignment of responsibility to one individual who reports directly to the Commissioner will insure that IRS is responsive to Congressional committees and their staffs. This person also will work closely with the Assistant Secretary for Tax Policy at the Treasury Department. Congressional referrals regarding individual cases will be routed through this office solely for the purpose of assuring appropriate research and timely response by the proper field official. The Assistant for Congressional Affairs will have no role in case disposition decisions.

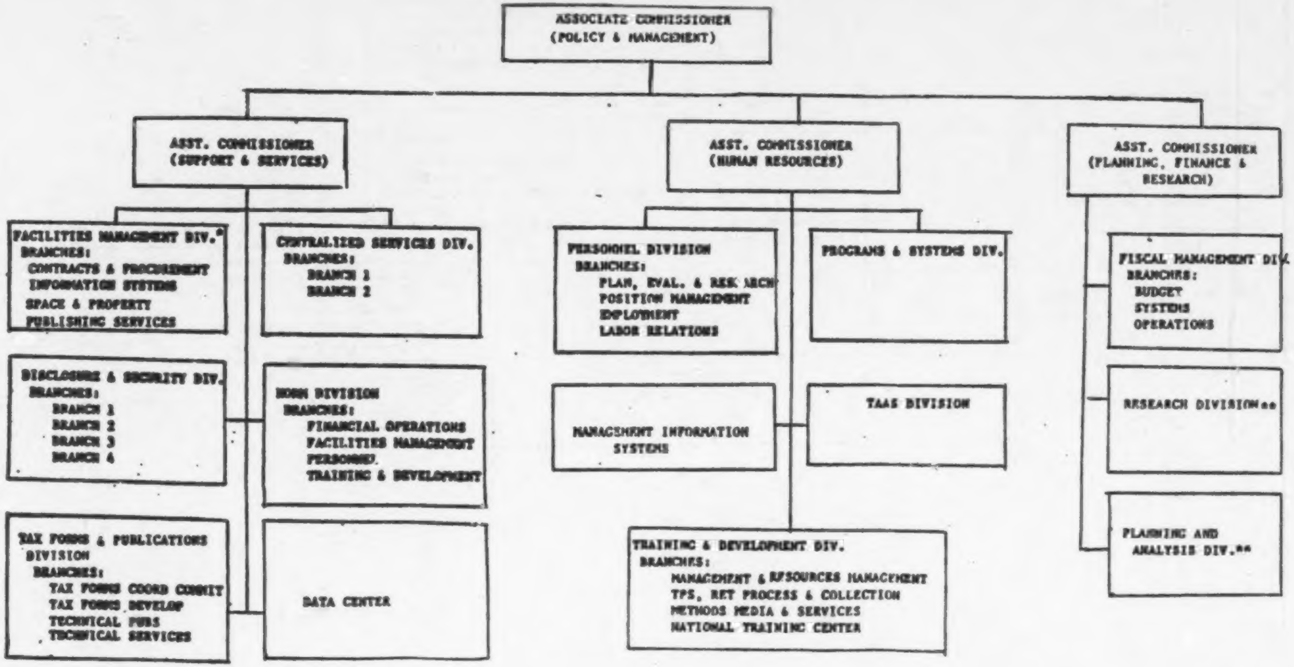
IRS NATIONAL OFFICE ORGANIZATION CHART


ASSISTANTS TO THE COMMISSIONER AND DEPUTY COMMISSIONER *
COMMISSIONER DEPUTY COMMISSIONER
ASST. COMMISSIONER (INSPECTION) DIVISIONS: INTERNAL AUDIT INTERNAL SECURITY
(TECHNICAL & APPEALS)
(LEGAL SERVICES)
CHIEF COUNSEL DEPUTY CHIEF COUNSEL
REGIONAL COMMISSIONERS
ASSOC. COMMISSIONER (OPERATIONS)
ASST. COMMISSIONER (EP & EO)
ASST. COMMISSIONER (CRIMINAL INVES.)
ASST. COMMISSIONER (EXAMINATION)**
ASST. COMMISSIONER (COLLECTION)
ASSOC. COMMISSIONER (POLICY & MANAGEMENT)
ASST. COMMISSIONER (SUPPORT & SERVICES)
FACILITIES MGT.
CENTRALIZED SERVICES
DISCLOSURE & SECURITY
NORM
TAX FORMS & PUBLICATIONS DIV.
DATA CENTER
ASST. COMMISSIONER (HUMAN RESOURCES)
PERSONNEL
TRAINING & DEV.
TAAS
PROGRAMS & SYSTEMS
MGT. INFO. SYS.
ASST. COMMISSIONER (PLANNING, FINANCE & RESEARCH)
FISCAL MGT.
RESEARCH DIVISION
PLANNING & ANALYSIS
ASSOC. COMMISSIONER (DATA PROCESSING)
ASST. COMMISSIONER (COMPUTER SERVICES)
SYSTEMS DEV.
HARDWARE
SOFTWARE
PLANNING & CONTROL STAFF
ASST. COMMISSIONER (RET & INFO PROC)
RET PROC & ACCT
NAT'L COMP CNT.
STATISTICS
PROGRAM PLAN & REVIEW STAFF

* PUBLIC AFFAIRS
CONGRESSIONAL AFFAIRS
OMBUDSMAN
ASSISTANT TO THE DEPUTY COMMISSIONER
ASSISTANTS TO THE COMMISSIONER
EQUAL EMPLOYMENT OPPORTUNITY OFFICE
** INCLUDES OFFICE OF TAX INFORMATION

1/26/82

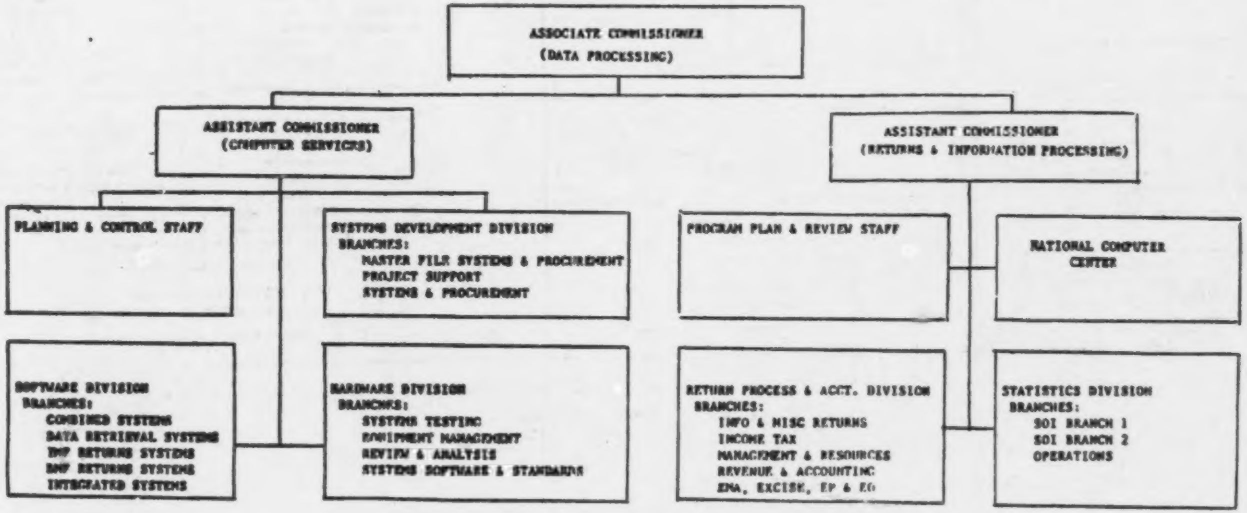
ASSOCIATE COMMISSIONER (POLICY & MANAGEMENT) ORGANIZATION


ASSOCIATE COMMISSIONER (POLICY & MANAGEMENT)
ASST. COMMISSIONER (SUPPORT & SERVICES)
FACILITIES MANAGEMENT DIV.* BRANCHES: CONTRACTS & PROCUREMENT INFORMATION SYSTEMS SPACE & PROPERTY PUBLISHING SERVICES
CENTRALIZED SERVICES DIV. BRANCHES: BRANCH 1 BRANCH 2
DISCLOSURE & SECURITY DIV. BRANCHES: BRANCH 1 BRANCH 2 BRANCH 3 BRANCH 4
NORM DIVISION BRANCHES: FINANCIAL OPERATIONS FACILITIES MANAGEMENT PERSONNEL TRAINING & DEVELOPMENT
TAX FORMS & PUBLICATIONS DIVISION BRANCHES: TAX FORMS COORD COMMIT TAX FORMS DEVELOP TECHNICAL PUBS TECHNICAL SERVICES
DATA CENTER
ASST. COMMISSIONER (HUMAN RESOURCES)
PERSONNEL DIVISION BRANCHES: PLAN, EVAL. & RESEARCH POSITION MANAGEMENT EMPLOYMENT LABOR RELATIONS
PROGRAMS & SYSTEMS DIV.
MANAGEMENT INFORMATION SYSTEMS
TAAS DIVISION
TRAINING & DEVELOPMENT DIV. BRANCHES: MANAGEMENT & RESOURCES MANAGEMENT TPS, RET PROCESS & COLLECTION METHODS MEDIA & SERVICES NATIONAL TRAINING CENTER
ASST. COMMISSIONER (PLANNING, FINANCE & RESEARCH)
FISCAL MANAGEMENT DIV. BRANCHES: BUDGET SYSTEMS OPERATIONS
RESEARCH DIVISION**
PLANNING AND ANALYSIS DIV.**

*Includes IMD

**Includes Math Statistical Support

ASSOCIATE COMMISSIONER (DATA PROCESSING) ORGANIZATION


ASSOCIATE COMMISSIONER (DATA PROCESSING)
ASSISTANT COMMISSIONER (COMPUTER SERVICES)
ASSISTANT COMMISSIONER (RETURNS & INFORMATION PROCESSING)
PLANNING & CONTROL STAFF
SYSTEMS DEVELOPMENT DIVISION
BRANCHES:
MASTER FILE SYSTEMS & PROCUREMENT
PROJECT SUPPORT
SYSTEMS & PROCUREMENT
SOFTWARE DIVISION
BRANCHES:
COMBINED SYSTEMS
DATA RETRIEVAL SYSTEMS
IMF RETURNS SYSTEMS
BMF RETURNS SYSTEMS
INTEGRATED SYSTEMS
HARDWARE DIVISION
BRANCHES:
SYSTEMS TESTING
EQUIPMENT MANAGEMENT
REVIEW & ANALYSIS
SYSTEMS SOFTWARE & STANDARDS
PROGRAM PLAN & REVIEW STAFF
NATIONAL COMPUTER CENTER
RETURN PROCESS & ACCT. DIVISION
BRANCHES:
INFO & MISC RETURNS
INCOME TAX
MANAGEMENT & RESOURCES
REVENUE & ACCOUNTING
EMA, EXCISE, EP & EO
STATISTICS DIVISION
BRANCHES:
SOI BRANCH 1
SOI BRANCH 2
OPERATIONS

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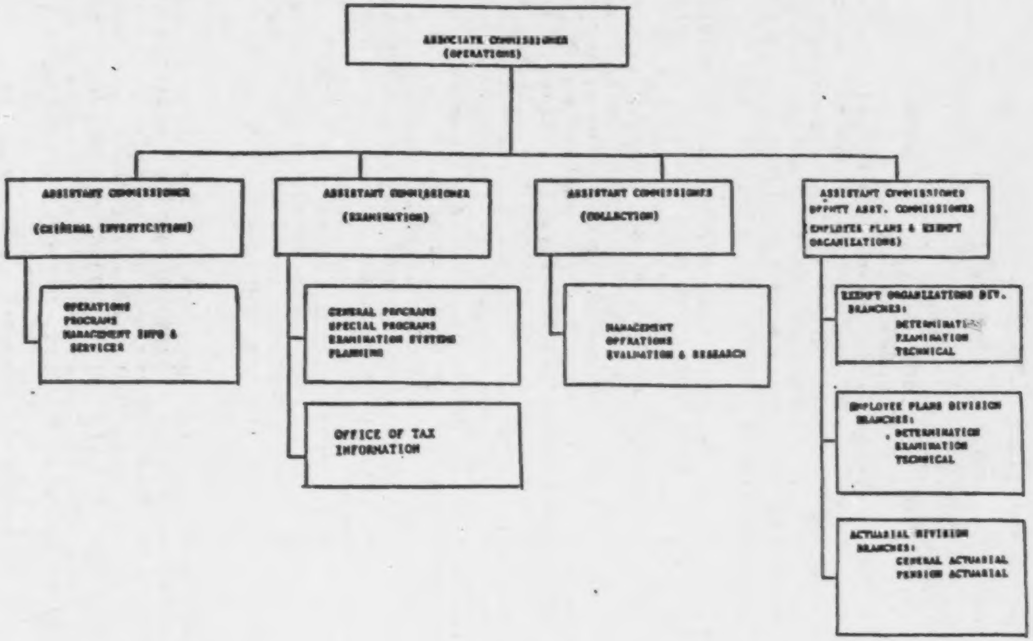
ASSOCIATE COMMISSIONER (OPERATIONS) ORGANIZATION


ASSOCIATE COMMISSIONER
(OPERATIONS)
ASSISTANT COMMISSIONER
(CRIMINAL INVESTIGATION)
OPERATIONS
PROGRAMS
MANAGEMENT INFO & SERVICES
ASSISTANT COMMISSIONER
(EXAMINATION)
GENERAL PROGRAMS
SPECIAL PROGRAMS
EXAMINATION SYSTEMS
PLANNING
OFFICE OF TAX INFORMATION
ASSISTANT COMMISSIONER
(COLLECTION)
MANAGEMENT
OPERATIONS
EVALUATION & RESEARCH
ASSISTANT COMMISSIONER
DEPUTY ASST. COMMISSIONER
(EMPLOYEE PLANS & EXEMPT ORGANIZATIONS)
EXEMPT ORGANIZATIONS DIV.
BRANCHES:
DETERMINATION
EXAMINATION
TECHNICAL
EMPLOYEE PLANS DIVISION
BRANCHES:
DETERMINATION
EXAMINATION
TECHNICAL
ACTUARIAL DIVISION
BRANCHES:
GENERAL ACTUARIAL
PENSION ACTUARIAL

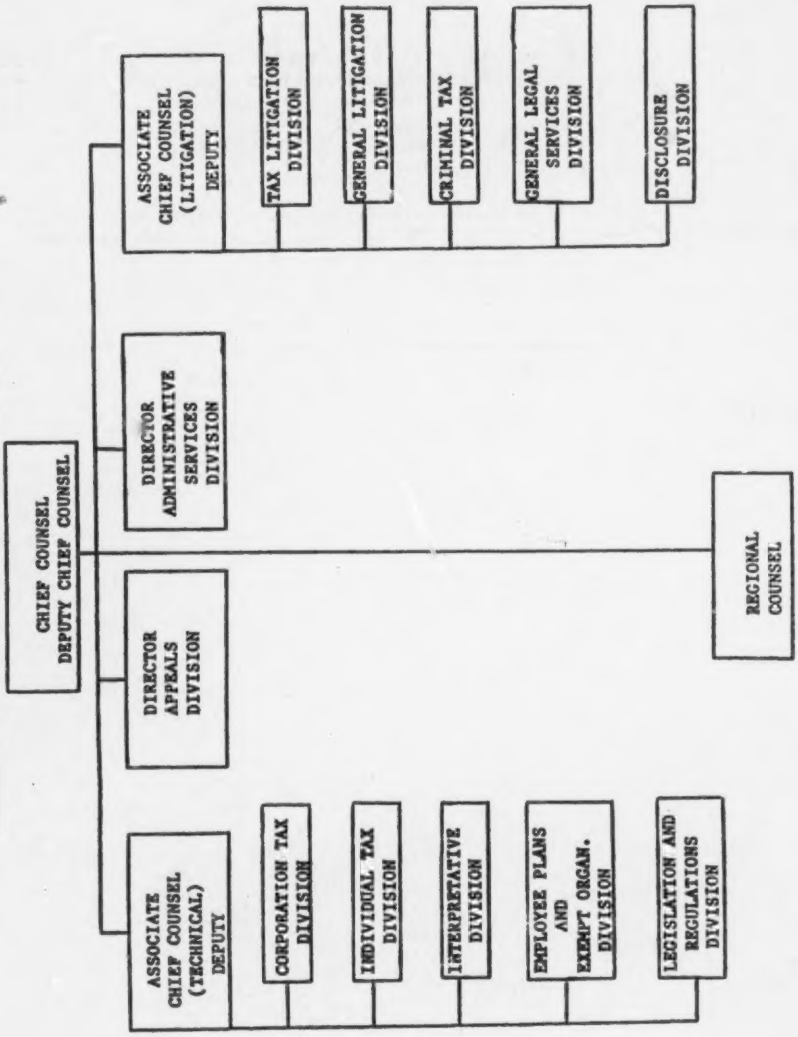
National Office - Office of the Chief Counsel

The Office of the Chief Counsel is also being reorganized to deal with its new responsibilities under the reorganization. A new Deputy Chief Counsel will assist the Chief Counsel by providing day-to-day executive support and ensuring the orderly functioning of the office in the Chief Counsel's absence. A new Associate Chief Counsel (Technical) will supervise the technical divisions now in the Chief Counsel's office as well as the ruling divisions being transferred to the Chief Counsel. A new Associate Chief Counsel (Litigation) will supervise the five divisions of the Chief Counsel's office directly concerned with litigation. Both Associates will have deputies.

The Appeals Division will be transferred to the Chief Counsel organization, together with the Individual Tax and Corporation Tax Divisions which are involved in the issuance of rulings. The Commissioner will, however, retain line supervisory authority and responsibility over these functions through the Chief Counsel. The Chief Counsel will continue to report to the General Counsel of the Treasury Department with respect to those matters on which he heretofore reported. Transfer of the Appeals activity to Chief Counsel will create close relationships and coordination between the administrative settlement and the litigation functions on all aspects of appeal actions. This change is intended to demonstrate to the public and practitioners the Service's interest in resolving cases more promptly, making its best possible settlement offer at the earliest possible time, and establishing a close working relationship between the legal and administrative staffs associated with the appeals process. Over a period of time we expect to see improved case development earlier in the appeals process and better evaluation of the most important hazards of trial. An increase in settlement rates is anticipated, thereby reducing the number of cases that go to legal adjudication, increasing public satisfaction with the process and reducing the heavy workloads in both Counsel and Appeals.

Consolidating all ruling functions in Chief Counsel should substantially reduce current ruling processing inefficiencies and eliminate duplicate levels of review, while achieving better and more unified technical positions. Moreover, coordination of the technical and litigating positions should be improved. The consolidation will provide for better use of the staff, more flexibility in assignments of work, expanded opportunities for the professional staffs, and quicker closing of cases and projects in which opinions are required, benefiting both the public and practitioners.

CHIEF COUNSEL NATIONAL OFFICE ORGANIZATION


CHIEF COUNSEL
DEPUTY CHIEF COUNSEL
ASSOCIATE CHIEF COUNSEL (TECHNICAL) DEPUTY
CORPORATION TAX DIVISION
INDIVIDUAL TAX DIVISION
INTERPRETATIVE DIVISION
EMPLOYEE PLANS AND EXEMPT ORGAN. DIVISION
LEGISLATION AND REGULATIONS DIVISION
DIRECTOR APPEALS DIVISION
DIRECTOR ADMINISTRATIVE SERVICES DIVISION
ASSOCIATE CHIEF COUNSEL (LITIGATION) DEPUTY
TAX LITIGATION DIVISION
GENERAL LITIGATION DIVISION
CRIMINAL TAX DIVISION
GENERAL LEGAL SERVICES DIVISION
DISCLOSURE DIVISION
REGIONAL COUNSEL

Regional Offices

Some structural changes will be made to the field organization to paralell the realignments being made in the National Office. The Regional Director of Appeals will report to the Regional Counsel rather than to the Regional Commissioner. This change mirrors the National Office shift where Appeals will be under the supervision of the Chief Counsel.

A new Assistant Regional Commissioner (Data Processing) reporting to the Regional Commissioner will be established and will have functional responsibility for all computer service, returns processing and ADP support activities in the region. The Assistant Regional Commissioner (Taxpayer Service and Returns Processing) will be abolished. Responsibility for functionally supervising tax information will become a responsibility of the Assistant Regional Commissioner (Examination).

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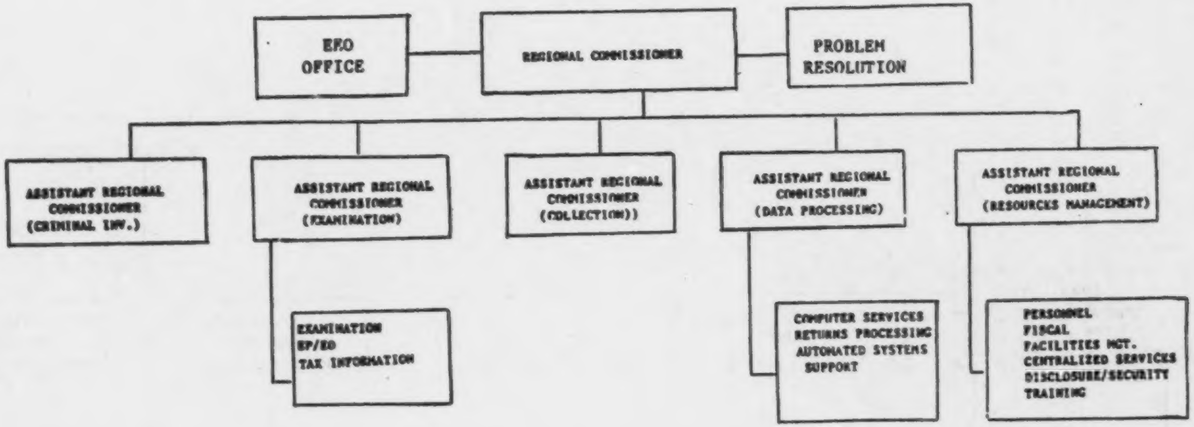
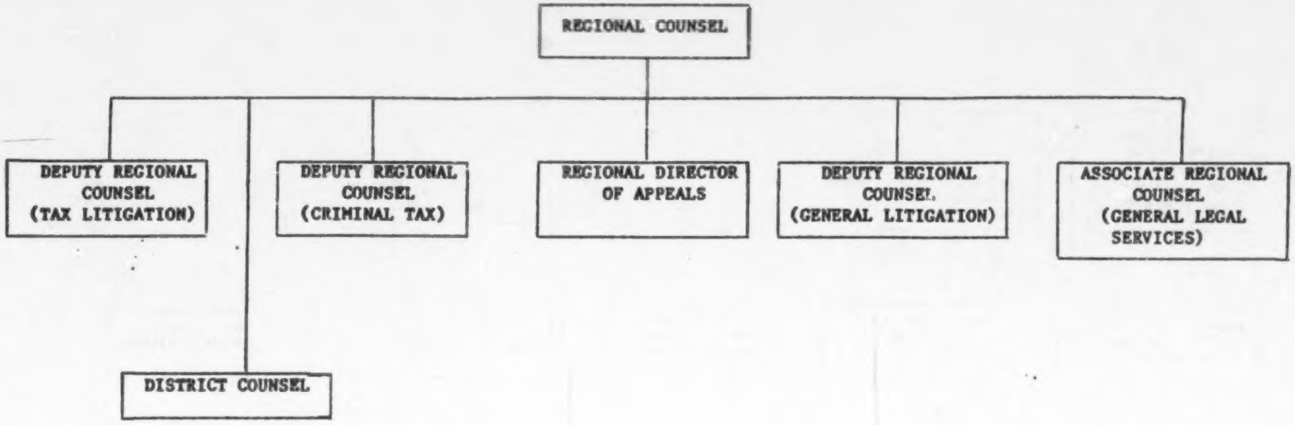
REGIONAL COMMISSIONER ORGANIZATION


ERO OFFICE
REGIONAL COMMISSIONER
PROBLEM RESOLUTION
ASSISTANT REGIONAL COMMISSIONER (CRIMINAL INV.)
ASSISTANT REGIONAL COMMISSIONER (EXAMINATION)
ASSISTANT REGIONAL COMMISSIONER (COLLECTION))
ASSISTANT REGIONAL COMMISSIONER (DATA PROCESSING)
ASSISTANT REGIONAL COMMISSIONER (RESOURCES MANAGEMENT)
EXAMINATION
EP/EO
TAX INFORMATION
COMPUTER SERVICES
RETURNS PROCESSING
AUTOMATED SYSTEMS SUPPORT
PERSONNEL
FISCAL
FACILITIES MGT.
CENTRALIZED SERVICES
DISCLOSURE/SECURITY
TRAINING

NOTE: PUBLIC AFFAIRS ACTIVITIES WILL REPORT DIRECTLY TO THE REGIONAL COMMISSIONER

1/26/82

REGIONAL COUNSEL ORGANIZATION


REGIONAL COUNSEL
DEPUTY REGIONAL COUNSEL (TAX LITIGATION)
DEPUTY REGIONAL COUNSEL (CRIMINAL TAX)
REGIONAL DIRECTOR OF APPEALS
DEPUTY REGIONAL COUNSEL (GENERAL LITIGATION)
ASSOCIATE REGIONAL COUNSEL (GENERAL LEGAL SERVICES)
DISTRICT COUNSEL

COMMISSIONER OF INTERNAL REVENUE
Washington, DC 20224

APR 7 1982

Ms. Frances de Vergie
Subcommittee on Oversight
 of Government Management
Committee on Governmental Affairs
Room 3306 Dirksen Senate Office Building
Washington, DC 20510

Dear Ms. de Vergie:

Enclosed as requested is the edited version of the transcript of the March 24 hearing on Taxpayer Service.

I want to point out a revision to page 68 of the testimony, concerning the net dollar reduction to taxpayer service in 1983. While the $43 million net reduction is technically accurate for one aspect of the program (general tax law assistance), it does not portray the funding change for the taxpayer service activity as a whole. The total reduction of $34.5 million for taxpayer service results from a series of adjustments that occurred in developing the estimates, as follows:

	Average Positions	Amount ($000)
Program reduction to taxpayer assistance program	-1,691	-$50,382
Offsetting increases in taxpayer account assistance for new pay rates and other operating costs	--	+$ 6,945
Net reduction to taxpayer assistance	-1,691	-$43,437
Increases to other programs within taxpayer service activity, including tax forms printing and distribution and problem resolution program	--	+$ 8,892
Net reductions to total taxpayer service activity	-1,691	-$34,545

Our proposed revisions to the testimony would thus reflect total net adjustments to the activity as a whole (-$34.5 million), which takes into account not only reductions but partially offsetting increases being proposed.

Department of the Treasury Internal Revenue Service

Ms. Frances de Vergie

We have included a revised opening statement as an insert to page 72 which incorporates these changes.

With kind regards,

Sincerely,

Charles W. Wheeler
Assistant to the Commissioner
(Legislative Liaison)

Enclosure
Transcript for March 24 Hearing